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FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Financial Statements
and Supplemental Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Franciscan Missionaries of
Our Lady Health System, Inc

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U S generally accepted accounting principles, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control Accordingly, we express no such opinion An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Franciscan Missionaries of Our Lady Health System, Inc and affiliated organizations as of June 30, 2013 and 2012, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in accordance with U S generally accepted accounting principles

Emphasis of Matter

As discussed in note 1(w) to the consolidated financial statements the System adopted the provisions of Accounting Standards Update No 2011-07 *Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* on July 1, 2012, and retroactively applied the provision to all periods presented Our opinion is not modified with respect to this matter

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole The accompanying supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole The supplementary information included in Schedule 4 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013, on our consideration of Franciscan Missionaries of Our Lady Health System, Inc 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Franciscan Missionaries of Our Lady Health System, Inc 's internal control over financial reporting and compliance

KPMG LLP

Baton Rouge, Louisiana
October 29, 2013

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Balance Sheets

June 30, 2013 and 2012

(In thousands)

Assets		2013	2012
Current assets			
Cash and cash equivalents	$	131,937	190,006
Short-term investments		19,231	17,538
Patient receivables, net of allowance for uncollectible accounts of $146,255 and $73,144 in 2013 and 2012, respectively		236,674	191,752
Other current assets		127,541	81,714
Total current assets		515,383	481,010
Assets limited as to use, net of current portion		754,249	668,512
Property and equipment, net		1,102,803	999,262
Other assets		152,382	112,761
Total assets	$	2,524,817	2,261,545
Liabilities and Net Assets			
Current liabilities			
Lines of credit	$	835	5,996
Current installments of long-term debt		14,260	19,027
Current portion of capital lease obligations		7,586	5,103
Accounts payable		88,205	53,435
Other current liabilities		202,967	169,200
Total current liabilities		313,853	252,761
Professional and general liabilities		31,326	28,472
Long-term debt, excluding current installments		599,796	502,390
Capital lease obligations, excluding current portion		12,463	21,469
Accrued pension cost		264,952	304,591
Other long-term liabilities		24,782	52,905
Total liabilities		1,247,172	1,162,588
Net assets			
Unrestricted		1,221,806	1,065,480
Temporarily restricted		27,227	20,802
Permanently restricted		5,300	5,510
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc		1,254,333	1,091,792
Noncontrolling interests		23,312	7,165
Total net assets		1,277,645	1,098,957
Commitments and contingencies			
Total liabilities and net assets	$	2,524,817	2,261,545

See accompanying notes to consolidated financial statements

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Changes in unrestricted net assets			
Unrestricted revenues			
Net patient service revenue, net of contractual allowances and discounts	$	1,469,958	1,319,535
Provision for uncollectible accounts		(161,838)	(123,500)
Net patient service revenue		1,308,120	1,196,035
Other revenue		93,689	89,943
Equity in income from equity investees, net		11,659	12,033
Total unrestricted revenues		1,413,468	1,298,011
Net assets released from restrictions used for operations			
Satisfaction of program restrictions		2,044	2,780
Expiration of time restrictions		142	133
Total net assets released from restrictions used for operations		2,186	2,913
Total unrestricted revenues and other support		1,415,654	1,300,924
Operating expenses:			
Salaries and wages		550,375	519,767
Employee benefits		146,888	111,761
Total salaries, wages, and employee benefits		697,263	631,528
Physician fees		31,207	30,570
Professional services		17,463	15,973
Other services		207,870	171,469
Leases, insurance, and utilities		50,751	46,384
Supplies and other		276,443	257,758
Depreciation and amortization		84,098	79,153
Interest		25,821	26,537
Other		2,778	3,133
Total operating expenses		1,393,694	1,262,505
Operating income		21,960	38,419

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Operations

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Nonoperating gains (losses)			
Investment return	$	70,038	(5,332)
Other		(10,316)	(3,743)
Change in fair value of interest rate swap agreements		10,040	(14,118)
Total nonoperating gains (losses), net		69,762	(23,193)
Unrestricted revenues, gains, and other support in excess of expenses and losses before noncontrolling interest		91,722	15,226
Noncontrolling interests		(2,569)	(3,126)
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc		89,153	12,100
Pension-related changes other than net periodic pension cost		67,738	(124,981)
Other		(565)	(1,848)
Increase (decrease) in unrestricted net assets	$	156,326	(114,729)

See accompanying notes to consolidated financial statements

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Change in unrestricted net assets			
Unrestricted revenues, gains, and other support in excess of expenses and losses attributable to Franciscan Missionaries of Our Lady Health System, Inc	$	89,153	12,100
Pension-related changes other than net periodic pension cost		67,738	(124,981)
Other		(565)	(1,848)
Increase (decrease) in unrestricted net assets		156,326	(114,729)
Changes in temporarily restricted net assets			
Contributions		8,297	5,062
Income from long-term investments, net		5	1
Net unrealized and realized gains on investments, net		—	15
Net assets released from restrictions		(2,186)	(2,913)
Acquired net assets		—	28
Other		309	—
Increase in temporarily restricted net assets		6,425	2,193
Changes in permanently restricted net assets		(210)	(6)
Changes in noncontrolling interests			
Unrestricted revenues, gains, and other support in excess of expenses and losses		2,569	3,126
Distributions		(2,272)	(5,183)
Acquired controlling interest		—	(1,066)
Sale of noncontrolling interest		15,838	—
Other		12	—
Increase (decrease) in noncontrolling interests		16,147	(3,123)
Increase (decrease) in net assets		178,688	(115,665)
Net assets, beginning of year		1,098,957	1,214,622
Net assets, end of year	$	1,277,645	1,098,957

See accompanying notes to consolidated financial statements

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from operating activities			
Increase (decrease) in net assets	$	178,688	(115,665)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities			
Depreciation and amortization		84,098	79,153
Provision for uncollectible accounts		161,838	123,500
Loss on sale or disposal of property and equipment, net		67	2,827
Net realized and unrealized (gains) losses on assets limited as to use and investment securities		(63,140)	11,107
Income from equity investees		(11,659)	(12,033)
Change in value of interest rate swap agreements		(10,040)	14,119
Amortization of net premium on bond issues		(192)	(38)
Pension-related changes other than net periodic pension cost		(67,738)	124,981
Loss on early extinguishment of debt		970	—
Sale of noncontrolling interest		(15,838)	—
Acquired controlling interest		—	985
Distributions to noncontrolling interest		2,272	5,183
Return on investment in equity investees		9,685	—
Changes in operating assets and liabilities			
Short-term investments, net		(155)	1,214
Receivables		(204,964)	(138,914)
Inventories		(4,096)	(187)
Prepaid expenses and other assets		(12,144)	(6,688)
Accounts payable, accrued expenses, and other liabilities		67,069	(3,688)
Professional and general liabilities		1,562	2,518
Net cash provided by operating activities		116,283	88,374

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

		2013	2012
Cash flows from investing activities			
Capital expenditures	$	(174,899)	(121,208)
Change in assets limited as to use		(58,049)	19,679
Cash paid for acquisitions, net of cash acquired		(25,556)	—
Proceeds from sales of property and equipment		160	1,267
Distributions of investment in equity investees		—	7,660
Net cash used in investing activities		(258,344)	(92,602)
Cash flows from financing activities			
Repayment of long-term debt		(68,780)	(18,124)
Repayment of capital lease obligations, net		(6,617)	(4,216)
Proceeds from issuance of long-term debt		161,502	3,200
Payment of bond issuance costs		(1,884)	—
Payments on line of credit, net		(5,506)	1,347
Sale of noncontrolling interest		7,549	—
Acquired controlling interest		—	(985)
Distributions to noncontrolling interest		(2,272)	(5,183)
Net cash provided by (used in) financing activities		83,992	(23,961)
Decrease in cash and cash equivalents		(58,069)	(28,189)
Cash and cash equivalents, beginning of year		190,006	218,195
Cash and cash equivalents, end of year	$	131,937	190,006

See accompanying notes to consolidated financial statements

(1) Organization and Summary of Significant Accounting Policies

Franciscan Missionaries of Our Lady Health System, Inc (FMOLHS or the System) is a not-for-profit, nonstock membership corporation and is a wholly owned subsidiary of Franciscan Missionaries of Our Lady in Baton Rouge, Louisiana (FMOL) The members of FMOL are the Provincial and the members of the Council of the Franciscan Missionaries of Our Lady – North American Province FMOLHS is the sole member and has sole voting control of four medical centers and their affiliates (FMOLHS Affiliates). All of these entities are not-for-profit, nonstock membership corporations The medical centers are as follows

- Our Lady of the Lake Regional Medical Center, Inc (the Lake) – Baton Rouge, Louisiana
- Our Lady of the Lake Ascension Community Hospital, Inc (d b a St Elizabeth Hospital) – Gonzales, Louisiana
- Our Lady of Lourdes Regional Medical Center, Inc (Lourdes) – Lafayette, Louisiana
- St Francis Medical Center, Inc (St Francis) – Monroe, Louisiana

The FMOLHS Affiliates participate together in a captive insurance company, Louise Insurance Co , Ltd. (Louise), which is wholly owned by FMOLHS (note 20)

The significant accounting policies used by FMOLHS in preparing and presenting its consolidated financial statements follow

(a) *Principles of Consolidation*

The consolidated financial statements include the accounts of FMOLHS, its wholly owned subsidiaries, and the FMOLHS Affiliates All significant intercompany balances and transactions have been eliminated in consolidation Third party equity interest in the consolidated subsidiaries are reflected as noncontrolling interest in FMOLHS's consolidated financial statements For subsidiaries in which FMOLHS does not have a controlling interest, FMOLHS records such investments under the equity method of accounting

(b) *Use of Estimates*

The preparation of consolidated financial statements in conformity with U S generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period Actual results could differ from those estimates The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, certain investments in alternative funds, valuation of derivatives, useful lives of property and equipment, and the actuarially determined

(Continued)

benefit liability related to FMOLHS's pension plans and postretirement health plans In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term

(c) ***Cash Equivalents***

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased, excluding amounts included in assets limited as to use

FMOLHS maintains bank accounts at various financial institutions covered by Federal Depository Insurance Corporation (FDIC) At time throughout the year, FMOLHS may maintain bank account balances in excess of the FDIC insured limit FMOLHS believes it is not exposed to any significant credit risk related to cash

(d) ***Investments and Investment Return***

Investments in equity securities with readily determinable fair values and all investments in debt securities, except for investments in the common stock of equity investees accounted for using the equity method, are recorded at fair value The estimated fair value of these investments is based on quoted market prices

FMOLHS also invests in alternative assets such as hedge funds, private equity funds, and commingled funds When FMOLHS's investment in alternative assets represents investments organized as corporations, or trusts with legal structures similar to a corporation, with ownership less than 20%, and transacts frequently (at least quarterly), FMOLHS accounts for these investments at net asset value as a practical expedient to fair value When FMOLHS's investment in alternative assets represents investments organized as limited partnerships, or limited liability companies with specific ownership accounts or trusts with legal structures similar to a partnership, FMOLHS accounts for these investments using the equity method, which generally approximates net asset value

The net asset value for alternative assets for which quoted market prices are not available is based on the most recent valuations provided by the external investment managers, adjusted for receipts and disbursements through June 30 FMOLHS reviews and evaluates the values provided by the managers and agrees with the valuation methods and assumptions used to determine those values Therefore, FMOLHS believes the carrying amount of these financial instruments is a reasonable estimate of fair value Because alternative assets are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed

Dividend, interest, and other income, realized and unrealized gains and losses on investments recorded at fair value, alternative assets recorded at net asset value, and changes in the carrying value of alternative assets recorded on the equity method, are included as unrestricted revenues, gains, and other support in excess of expenses and losses in the consolidated statements of operations unless their use is temporarily or permanently restricted by explicit donor stipulations or law Donated investments are recorded at fair value at the date of receipt

(e) *Inventories*

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost (average cost method) or market

(f) *Assets Limited as to Use*

Assets limited as to use include the following

- Assets set aside by the Board of Directors for future capital acquisitions, capital improvements, securities lending, and debt service, over which the Board of Directors retains control and may at its discretion subsequently use for other purposes
- Assets held by trustees under indenture agreements, self-insurance trust arrangements, and terms of donor restrictions

Amounts required to satisfy current requirements for the payment of current construction costs and debt service costs are classified as current assets in the accompanying consolidated balance sheets

(g) *Components of Net Assets*

Net assets, revenues, and other support and expenses are classified based on the existence or absence of donor-imposed restrictions Accordingly, the net assets of FMOLHS and changes therein are classified and reported as follows

Unrestricted Net Assets – Unrestricted net assets are net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contracts or by board designation

Temporarily Restricted Net Assets – Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met either by actions of FMOLHS and/or the passage of time When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions

Permanently Restricted Net Assets – Permanently restricted net assets are net assets subject to donor-imposed stipulations that are maintained permanently by FMOLHS Generally, the donors of these assets permit FMOLHS to use all or part of the income earned on related investments for specific or general purposes

(Continued)

Unrealized gains and losses are recorded as temporarily restricted net assets if the terms of the gift restrict the use of the income Permanently restricted net assets are increased if the term of the gift that gave rise to the investment requires the unrealized gain be added to the principal of a permanent endowment

Generally, losses on the investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on net appreciation of investments have not been met before the loss occurs Any remaining losses reduce unrestricted net assets, but can be restored through subsequent investment gains

(h) Bond Issuance Costs

Bond issuance costs, premiums, and discounts, costs of letters of credit and standby purchase agreements are being amortized over the terms of the related bond issues using a method that approximates the effective interest method Accumulated amortization was approximately $5,510 and $5,019 at June 30, 2013 and 2012, respectively

(i) Property and Equipment

Property and equipment, including leasehold improvements, are stated at cost upon acquisition or fair value if donated Depreciation is computed primarily on the straight-line method based upon the shorter of the estimated useful lives of the assets or the lease term Equipment under capital lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life Such amortization is included in depreciation and amortization expense in the accompanying consolidated financial statements

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support Absent explicit donor time stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service Contributions restricted for the purchase of property and equipment for which restrictions are met within the same year as the contributions are received are reported as increases in unrestricted net assets in the accompanying consolidated financial statements

(j) Business Combination

FMOLHS accounts for business combinations using the acquisition method The assets acquired consist primarily of property and equipment, intangibles, and license The assets acquired and liabilities assumed, if any, are measured at fair value on the acquisition date using the appropriate valuation method The noncontrolling interest associated with joint venture acquisitions is also measured and recorded at fair value as of the acquisition date The residual purchase price is recorded as goodwill The operations of the acquisitions are included in the consolidated financial statements from their respective dates of acquisition

(Continued)

(k) Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired, or goodwill, included in other assets, is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Cost in excess of net assets acquired is reviewed for impairment at least annually In September 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-08, *Testing Goodwill for Impairment*, which provides an entity the option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test If this is the case, the two-step goodwill impairment test is required If it is more-likely-than-not that the fair value of a reporting is greater than its carrying amount, the two-step goodwill impairment test is not required. FMOLHS adopted this guidance in 2013

If the two-step goodwill impairment test is required, first, the fair value of the reporting unit is compared with its carrying amount (including cost in excess of net assets acquired) If the fair value of the reporting unit is less than its carrying amount, an indication of cost in excess of net assets acquired impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement) Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of cost in excess of net assets acquired is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill Fair value of the reporting unit is determined using a discounted cash flow analysis If the fair value of the reporting unit exceeds its carrying amount, step two does not need to be performed

FMOLHS performs its annual impairment review of cost in excess of net assets acquired at June 30, and when a triggering event occurs between annual impairment tests For 2013, FMOLHS performed a qualitative assessment of cost in excess of net assets acquired and determined that it is not more-likely-than-not that the fair values of its reporting units are less than the carrying amounts Accordingly, no impairment loss was recorded in 2013 or 2012

Accumulated amortization for all costs in excess of net assets acquired was $15,846 at June 30, 2013 and 2012

(l) Capitalization of Interest

FMOLHS capitalizes the interest costs of borrowings, net of related investment income on the unexpended funds, during the construction period of major projects as a component of the asset Net interest expense capitalized was $1,842 and $325 for the years ended June 30, 2013 and 2012, respectively

(m) Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable If circumstances require a long-lived asset to be tested for possible impairment, FMOLHS first compares the undiscounted future cash flows expected to be generated by the assets to its carrying value If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party appraisals, as considered necessary

Assets to be disposed of are separately presented in the accompanying consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated

(n) Estimated Workers' Compensation, Professional Liability, and Employee Health Claims

The provisions for estimated workers' compensation, professional liability, and employee health claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported These estimates incorporate FMOLHS's past experience, as well as other considerations, including the nature of claims, industry data, relevant trends, and/or the use of actuarial information

(o) Consolidated Statements of Operations

Transactions deemed to be ongoing, major, or central to the provision of healthcare services are reported as operating revenues and expenses Peripheral or incidental transactions are reported as nonoperating gains and losses Investment return, consisting of dividends and interest earned on investments, as well as realized and unrealized gains and losses on the investment portfolio, medical office building rental income, the change in value of interest rate swap agreement, and gains and losses on asset disposals are reported as nonoperating gains or losses

The consolidated statements of operations include unrestricted revenues, gains, and other support in excess of expenses and losses, which is an indicator of financial performance Changes in unrestricted net assets that are excluded from unrestricted revenues, gains, and other support in excess of expenses and losses include permanent transfers of assets to and from affiliates for other than goods and services, pension-related changes other than net periodic pension cost, and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets)

(p) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is recognized as services are performed and is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors

(Continued)

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and are adjusted as final settlements are determined

Patient receivables are reduced by an allowance for uncollectible accounts The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in healthcare coverage, major payor sources, and other collection indicators Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables After satisfaction of amounts due from insurance, FMOLHS Affiliates follow established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by FMOLHS Affiliates

(q) ***Charity Care***

The FMOLHS Affiliates provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates Because the FMOLHS Affiliates do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue

The FMOLHS Affiliates maintain records to identify and monitor the level of charges forgone that are associated with the charity care they provide Charges forgone, based on established rates, totaled approximately $38,576 and $30,305 for the years ended June 30, 2013 and 2012, respectively.

The FMOLHS Affiliates do not include charity care in net patient service revenue The cost of charity care provided in 2013 and 2012 approximated $13,734 and $11,216, respectively FMOLHS Affiliates estimated these costs by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross charity charges associated with providing care to charity patients

(r) ***Electronic Health Record Incentive Program***

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments beginning in 2011 for the meaningful use of certified electronic health record (EHR) technology CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology FMOLHS utilizes a contingency accounting model to recognize EHR incentive revenues FMOLHS records EHR incentive revenue when FMOLHS has actually complied with the meaningful use criteria for a full reporting period and when all uncertainties and contingencies are resolved prior to the recognition of income In fiscal 2013 and 2012, FMOLHS recorded EHR incentive revenues of $9,527 and $15,372 comprised of $5,354 and $8,361 of Medicare revenues and $4,173 and $7,011 of Medicaid revenues, respectively EHR incentive revenues are included in net patient service revenue in the accompanying consolidated statements of operations There were no EHR incentive receivables from Medicare and Medicaid at June 30, 2013

(s) Income Taxes

FMOLHS and the FMOLHS Affiliates are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) as organizations described in IRC Section 501(c)(3) Certain of the FMOLHS Affiliates' subsidiaries are subject to federal and state income taxes, provisions for which have been reflected in the accompanying consolidated financial statements The amounts of such provisions are not material

FMOLHS recognizes the effect of income tax positions only if those positions are more likely than not of being sustained Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized Changes in recognition or measurement are reflected in the period in which the change in judgment occurs No reserves for uncertain tax positions have been recorded

(t) Asset Retirement Obligations

FMOLHS recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made When the liability is initially recorded, FMOLHS capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations

(u) Fair Value Measurements

FMOLHS applies Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes an enhanced framework for measuring fair value, and expands disclosures about fair value measurements, including those required for certain investments in funds that do not have readily determinable fair values including private equity investments, hedge funds, real estate, and other funds ASC Topic 820 permits, as a practical expedient, the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent Net asset value, in many instances, may not equal fair value that would be calculated pursuant to other related requirements of ASC Topic 820

FMOLHS utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible FMOLHS determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels

- Level 1 Inputs Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date
- Level 2 Inputs Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability
- Level 3 Inputs Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U S GAAP and IFRSs* (ASU 2011-04 The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U S GAAP For U S GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS The provisions of the ASU are effective for periods beginning after December 15, 2011 FMOLHS adopted the provisions of this standard in fiscal 2013 The adoption of ASU 2011-04 did not have a material effect on the consolidated financial statements

(v) Fair Value Option

ASC SubTopic 825-10, *Financial Instruments – Overall,* gives FMOLHS the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings FMOLHS has not elected to apply the fair value option to any assets or liabilities

(w) Recently Adopted Accounting Standards

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* This ASU changed FMOLHS's presentation of the provision for uncollectible accounts in the consolidated statements of operations from an operating expense to a deduction from net patient service revenue It expanded disclosures regarding policies for recognizing revenue, assessing contra revenue line items, and activity in the allowance for uncollectible accounts FMOLHS adopted the provisions of this standard on July 1, 2012, and retroactively applied the provisions to all periods presented.

(x) ***Reclassifications***

Certain reclassifications have been made to 2012 amounts to conform to the 2013 consolidated financial statement presentation

(y) ***Current Economic Environment***

In light of the current sluggish recovery of the U S economy, FMOLHS monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective Management recognizes that economic conditions may continue to impact FMOLHS in a number of ways, including (but not limited to) uncertainties associated with U S financial system reform and rising self-pay patient volumes and corresponding increases in uncompensated care

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the impacts of the federal healthcare reform legislation, which was passed in the spring of 2010 and upheld by the Supreme Court in June 2012 Potential impacts of ongoing healthcare industry transformation include, but are not limited to

- Significant (and potentially unprecedented) capital investment in healthcare information technology (HCIT),
- Continuing volatility in the state and federal government reimbursement programs,
- Lack of clarity related to the health benefit exchange framework mandated by reform legislation, including important open questions regarding exchange reimbursement levels, changes in combined state/federal disproportionate share payments, and impact on the healthcare "demand curve" as the previously uninsured enter the insurance system,
- Effective management of multiple major regulatory mandates, including achievement of meaningful use of HCIT and the transition to ICD-10, and
- Significant potential business model changes throughout the healthcare ecosystem, including within the healthcare commercial payor industry

The business of healthcare in the current economic, legislative, and regulatory environment is volatile Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on FMOLHS's financial position and operating results

(In thousands)

(2) Short-Term Investments and Assets Limited as to Use

Short-term investments consist of the following

		2013	2012
Asset category			
Cash	$	794	640
Equity securities			
U S companies		4,819	4,361
International companies		1,952	1,689
Real assets		1,181	1,160
Fixed income securities			
U S government guaranteed		149	66
U S agency		428	383
Corporate		589	670
Municipal		33	28
Other		1,693	1,876
Emerging markets		854	722
Alternative asset funds			
Hedge funds		4,873	4,149
Private equity funds		1,866	1,794
Total	$	19,231	17,538

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(In thousands)

The composition of assets limited as to use at June 30, 2013 and 2012 is as follows

	2013				
	Board-designated for capital	Trusted bond funds	Self-insurance trust funds	Other	Total
Asset category					
Cash	$ 34,828	58,572	—	3,144	96,544
Equity securities					
U S companies	111,472	—	3,439	5,262	120,173
International companies	82,258	—	—	486	82,744
Real assets	49,779	—	—	—	49,779
Fixed income securities					
U S government guaranteed	6,288	—	2,138	—	8,426
U S agency	18,021	—	10,570	354	28,945
Corporate	24,843	—	3,944	1,329	30,116
Municipal	1,380	—	10,095	—	11,475
Other	61,625	—	2,691	1,081	65,397
Emerging markets	36,000	—	—	—	36,000
Alternative asset funds					
Hedge funds	205,300	—	—	109	205,409
Private equity funds	78,658	—	—	—	78,658
	710,452	58,572	32,877	11,765	813,666
Less amounts classified as current assets	102	58,572	—	743	59,417
Noncurrent portion	$ 710,350	—	32,877	11,022	754,249

(Continued)

(In thousands)

	2012				
	Board-designated for capital	Trusted bond funds	Self-insurance trust funds	Other	Total
Asset category					
Cash	$ 32,846	23,997	815	2,725	60,383
Equity securities					
U S companies	92,345	—	2,917	4,652	99,914
International companies	70,598	—	—	414	71,012
Real assets	48,469	—	—	—	48,469
Fixed income securities					
U S government guaranteed	2,758	—	3,228	—	5,986
U S agency	15,982	—	17,176	—	33,158
Corporate	27,984	—	—	1,834	29,818
Municipal	1,185	—	—	—	1,185
Other	64,195	—	—	1,031	65,226
Emerging markets	30,163	—	—	—	30,163
Alternative asset funds					
Hedge funds	173,366	—	—	—	173,366
Private equity funds	74,968	—	—	—	74,968
Accrued interest	367	—	—	—	367
	635,226	23,997	24,136	10,656	694,015
Less amounts classified as current assets	913	23,997	—	593	25,503
Noncurrent portion	$ 634,313	—	24,136	10,063	668,512

(a) Board-designated for Capital

In accordance with Board approval, the FMOLHS Affiliates have designated assets to fund future capital acquisitions and capital improvements

The FMOLHS Affiliates invest their board-designated for capital funds together within FMOLHS in a capital reserve investment fund held in a JP Morgan Chase Bank custodial account Through usage of unitized accounting, these investments are segregated for each FMOLHS Affiliate Investments held as board-designated for capital are managed by several money managers, which focus on different investment strategies and provide diversity to the investments

(In thousands)

(b) Alternative Assets

Alternative assets (included in short-term investments and assets limited as to use) include limited partnerships and offshore investment funds These funds invest in certain types of financial instruments, including, among others, futures and forward contracts, options, and securities sold not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in the market (market risk) Alternative assets by strategy type are as follows

		2013	2012
Alternative assets			
Hedge funds	$	210,282	177,515
Private equity		80,524	76,762
Total alternative assets	$	290,806	254,277

At June 30, 2013, FMOLHS's remaining outstanding commitments to private equity interests totaled $26,329 The projected capital call amounts for the next five fiscal years and thereafter are summarized in the table below

		Projected capital calls
Fiscal year		
2014	$	22,854
2015		2,482
2016		666
2017		255
2018		72
Thereafter		—
	$	26,329

Private equity interests have 10-year terms, with extensions of 1 to 4 years As of June 30, 2013, the average remaining life of the private equity interests is approximately 7 1 years

At June 30, 2013 and 2012, FMOLHS had hedge fund investments of $210,282 and $177,515, respectively, which were restricted from redemption for lock-up periods Some of the hedge fund investments with redemption restrictions allow early redemption for specified fees The terms and conditions upon which an investor may redeem an investment vary, usually requiring 30 to 180 days notice after the initial lock-up period

(In thousands)

Based upon the terms and conditions in effect at June 30, 2013, FMOLHS's hedge fund investments can be redeemed or sold as follows

		Amount
Fiscal year		
2014	$	198,346
2015		4,933
2016		—
2017		—
2018		—
2019–2023		—
Thereafter		7,003
Total	$	210,282

(c) *Trusteed Bond Funds*

Certain trusteed bond funds have been established in accordance with the requirements of indentures related to various bond obligations The consolidated trusteed bond funds as of June 30, 2013 and 2012 consist of the following categories

		2013	2012
Construction funds	$	37,217	—
Principal and interest funds		21,355	23,997
		58,572	23,997
Less amounts classified as other current assets		58,572	23,997
Noncurrent portion	$	—	—

The above funds were established in accordance with related indentures to secure the payment of principal and interest on the related obligations, and to pay or reimburse the FMOLHS Affiliates for payment of the costs of the acquisition, construction, and installation of certain extensions and improvements to their facilities Amounts classified as current represent funds deposited to pay current costs of construction projects and to pay related debt service costs classified as current liabilities Information regarding FMOLHS's debt obligations is included in note 11

(d) *Self-insurance Trust Funds*

The self-insurance trust funds represent amounts designated to pay certain self-insured losses (note 20) *(e)* ***Other***

(In thousands)

Other assets limited at to use as of June 30, 2013 and 2012 consist of the following

		2013	2012
Scholarships – limited by donor	$	355	184
Healthcare services – limited by donor		9,974	9,167
Resident deposits		109	141
Escrow, security deposits, and surplus cash		276	260
Capital improvement – limited by grantor agency		1,051	904
		11,765	10,656
Less amounts classified as current		743	593
	$	11,022	10,063

All investments are considered "trading" for accounting purposes All unrestricted investment income, including both realized and unrealized gains and losses, is included in the reported total of unrestricted revenues, gains, and other support in excess of expenses and losses The following schedule for the years ended June 30, 2013 and 2012 summarizes the investment return and its classification in the consolidated statements of operations

		Unrestricted	Temporarily restricted	Total
2013				
Dividends and interest, net of expenses of $1,986	$	6,898	5	6,903
Realized and unrealized gains (losses), net		63,140	—	63,140
Investment return	$	70,038	5	70,043
2012				
Dividends and interest, net of expenses of $2,088	$	5,790	1	5,791
Realized and unrealized gains (losses), net		(11,122)	15	(11,107)
Investment return	$	(5,332)	16	(5,316)

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets, statements of operations, and statements of changes in net assets

(In thousands)

(3) Patient Receivables

The composition of net patient receivables at June 30, 2013 and 2012 is as follows

	2013	2012
Patient accounts receivable	$ 382,929	264,896
Less allowance for uncollectible accounts	146,255	73,144
	$ 236,674	191,752

For patient receivables associate with self-pay patients, including patients with deductibles and copayment balances for which third-party coverage provides for a portion of the services provided, FMOLHS Affiliates record an estimated provision for uncollectible accounts in the year of service FMOLHS has experienced an increase in the provision for uncollectible accounts due to a significant increase in the uninsured and underinsured patient population including the transition of patients resulting from the Cooperative Endeavor Agreement FMOLHS' allowance for uncollectible accounts increased by 99 9% and 13 5% compared to June 30, 2012 and June 30, 2011, respectively

(4) Other Current Assets

The composition of other current assets at June 30, 2013 and 2012 is as follows

	2013	2012
Due from third-party payors	$ 540	—
Other receivables	13,430	13,005
Inventories	27,680	23,007
Prepaid expenses and other current assets	26,474	20,199
Assets limited as to use required for current liabilities	59,417	25,503
	$ 127,541	81,714

(In thousands)

(5) Property and Equipment

A summary of property and equipment as of June 30, 2013 and 2012 is as follows

	2013	2012	Estimated useful lives
Land	$ 123,845	123,195	—
Land improvements	26,011	15,520	2–40 years
Buildings and building improvements	943,203	931,013	5–50 years
Fixed equipment	114,891	109,329	3–50 years
Movable equipment	562,916	535,280	3–25 years
Leasehold improvements	7,769	7,188	5–15 years
Building and building improvements held for lease	3,543	3,543	2–22 years
Construction in progress	142,295	92,146	—
	1,924,473	1,817,214	
Less accumulated depreciation	821,670	817,952	
	$ 1,102,803	999,262	

At June 30, 2013, the FMOLHS Affiliates were obligated under purchase commitments of $70,232 relating to the completion of various construction projects and purchases of equipment. Approximately $10,658 and $4,374 related to such projects and other property additions are included in accounts payable at June 30, 2013 and 2012, respectively

(6) Other Assets

The composition of other assets at June 30, 2013 and 2012 is as follows

	2013	2012
Unamortized bond issuance costs, net of accumulated amortization	$ 7,348	6,839
Investments in equity investees	72,535	69,644
Cost in excess of net assets acquired	46,283	17,066
Fair value of interest rate swap agreements	7,453	5,573
Other	18,763	13,639
	$ 152,382	112,761

(Continued)

(In thousands)

(7) Investment in Equity Investees

A summary of the FMOLHS's investment in equity investees at June 30, 2013 and 2012 included in other assets in the consolidated balance sheets, and its income from equity investees for the years ended June 30, 2013 and 2012 are as follows

	Ownership interest	Investment in investees	Equity income (loss) of investees
2013			
Convenient Care, LLC	50%	$ 1,643	497
Capital Area Shared Service Organization – Lake	48	—	(339)
Surgical Specialty Center of Baton Rouge, LLC	49	25,106	4,653
Regional Eye Surgery Center LLC	14	204	247
Baton Rouge Physical Therapy – Lake	29	572	169
Lake Surgery Center LP	47	—	(20)
Lake Urgent Care Ascension – Lake	30	1,527	177
Baton Rouge Physical Therapy – STE	4	71	22
P&S Surgery Center, LLC	50	12,755	1,174
Northeast Louisiana Cancer Institute, LLC	50	2,849	(71)
Northeast Louisiana Physician Hospital Organization	25	177	7
Louisiana Home Care of Monroe, LLC	33	73	11
Lourdes After Hours, LLC	50	425	159
LHCG VIII	33	337	12
Park Place Surgery Center	45	17,531	3,565
Resource Optimization and Innovation, LLC	10	6,090	1,402
Capital Area Shared Service Organization – STE	17	—	(120)
Lake Urgent Care Ascension – STE	20	218	118
Mary Bird Perkins Cancer Center – STE	35	2,957	(4)
		$ 72,535	11,659

(In thousands)

	Ownership interest		Investment in investees	Equity income (loss) of investees
2012				
Convenient Care, LLC	50%	$	1,650	197
Capital Area Shared Service Organization – Lake	48		341	(126)
Surgical Specialty Center of Baton Rouge, LLC	49		24,702	4,599
Regional Eye Surgery Center LLC	14		164	246
Baton Rouge Physical Therapy-Lake	29		466	139
Baton Rouge Physical Therapy – STE	4		57	17
Perkins Plaza ASC	46		620	128
P&S Surgery Center, LLC	50		12,783	2,091
Northeast Louisiana Cancer Institute, LLC	50		2,920	674
Northeast Louisiana Physician Hospital Organization	25		169	(13)
LHCG VIII	33		85	23
Lourdes After Hours, LLC	50		514	40
Louisiana Health Care Group, LLC	33		330	264
Park Place Surgery Center	45		17,074	3,858
Resource Optimization and Innovation, LLC	10		4,688	—
Capital Area Shared Service Organization – STE	17		120	(50)
Mary Bird Perkins Cancer Center – STE	35		2,961	(54)
		$	69,644	12,033

(8) Business Combinations

Effective December 31, 2012, the Lake acquired 51% of OLOL/USP Surgery Centers, LLC (OLOL/USP) Also effective December 31, 2012, OLOL/USP acquired 550 membership units or 55% of OLOL Pontchartrain Surgery Center, LLC (Center) for approximately $15,605, less withheld funds and purchases of retroactive insurance for the Center The Center is a freestanding outpatient surgery center located in Covington, Louisiana The results of OLOL/USP's operations have been included in the consolidated financial statements since that date

OLOL's joint venture partner in OLOL/USP, entered into a management agreement as of January 1, 2013 with the Center The joint venture partner manages the day-to-day business operations of the Center including, but not limited to, financial management, billing, purchasing, staffing, and recruiting Effective January 1, 2013, the Lake entered into a management subcontract with the joint venture partner in which the Lake performs some of the duties under the management agreement, including managed care contracting

(In thousands)

The following summarizes the preliminary amounts of the assets acquired and liabilities assumed at the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest acquired

Cash	$	214
Current assets		366
Accounts receivable		1,042
Property and equipment		1,751
Goodwill		21,081
Current liabilities		(564)
Other liabilities		(29)
Noncontrolling interest		(8,288)

Effective December 31, 2012, the Lake acquired an additional 24% ownership in Perkins Plaza Ambulatory Surgery Center, LLC, d/b/a Lake Surgery Center from Foundation Surgery Holdings, LLC for approximately $797, resulting in the Lake holding 70% ownership after the purchase

Effective December 31, 2012, Our Lady of the Lake Physician Group, L L C (OLOLPG), a wholly owned subsidiary of the Lake, purchased substantially all of the assets of Hematology-Oncology Associates of Baton Rouge, L L C d/b/a Louisiana Hematology-Oncology Associates (LHOA) related to the physician practice The purchase price was approximately $8,120 The physicians and the mid-levels will be provided to OLOLPG through a professional services agreement between LHOA to OLOLPG. The remainder of the clinic staff will be employed by an unrelated entity and provided to OLOLPG through a management/staffing arrangement with the unrelated entity

(9) Lines of Credit

At June 30, 2013, FMOLHS affiliates had various unsecured working capital lines of credit with banks in aggregate amount of $46,500, bearing interest at variable rates expiring at various dates through June 2014 Outstanding amounts at June 30, 2013 and 2012 were $835 and $5,996, respectively FMOLHS affiliates expect to renew the lines of credit at expiration under substantially the same terms and conditions

(In thousands)

(10) Other Current Liabilities

The composition of other current liabilities at June 30, 2013 and 2012 is as follows

		2013	2012
Accrued salaries and related expenses	$	71,489	61,856
Accrued interest		11,822	9,730
Due to third-party payors		59,223	51,392
Accrued expenses and other current liabilities		60,433	46,222
	$	202,967	169,200

(11) Long-term Debt

A summary of long-term debt at June 30, 2013 and 2012 is as follows

		2013	2012
Obligated Group bonds			
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998A, $72,560 tax-exempt bonds, due in varying installments through 2026 with interest fixed at rates ranging from 5 50% to 5 75%	$	40,699	49,505
Louisiana Public Facilities Authority Hospital Revenue and Refunding Bonds Series 1998B, $31,050 tax-exempt bonds, due in varying installments through fiscal year 2017, with interest fixed at rates ranging from 3 375% to 5 000%, respectively), due in varying installments through 2017		18,500	22,800
Louisiana Public Facilities Authority Hospital Bonds Series 2005A, $80,000 tax-exempt bonds, due in varying installments from 2032 through 2037, with interest fixed at rates ranging from 5 00% to 5 25%		80,000	80,000
Louisiana Public Facilities Authority Hospital Bonds Series 2005B, $50,000 tax-exempt bonds, due in varying installments from fiscal year 2014 through 2031, which bear interest at a variable rate (0 06% at June 30, 2013)		50,000	50,000
Louisiana Public Facilities Authority Hospital Bonds Series 2005C, $50,000 tax-exempt bonds, due in varying installments from fiscal year 2014 through 2031, with interest fixed at a rates ranging from 4 00% to 6 75%		—	50,000

(In thousands)

	2013	2012
Louisiana Public Facilities Authority Hospital Bonds Series 2005D, $88,325 bonds due in varying installments through 2029, which bear interest at a variable rate (0 06% at June 30, 2013)	$ 76,275	79,450
Louisiana Public Facilities Authority Hospital Bonds Series 2008A, $47,185 bonds, due in varying installments through fiscal year 2026, which bear interest at a variable rate (0 07% at June 30, 2013)	46,309	46,480
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2009A, $125,000 bonds, due in varying installments from fiscal year 2029 through 2040, with interest fixed at rates ranging from 6 63% to 6 75%	125,000	125,000
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012A, $56,530 bonds, due in varying installments from fiscal year 2034, with interest fixed at 2 47% at June 30, 2013	56,530	—
Louisiana Public Facilities Authority Hospital Revenue Bonds Series 2012B, $100,000 bonds, due in varying installments from fiscal year 2043, with interest at a variable rate ranging from 4 00% to 5 00%	100,000	—
	593,313	503,235
Add unamortized premium	5,202	334
Total Obligated Group bonds	598,515	503,569
Other debt – Our Lady of the Lake Regional Medical Center		
Mortgage payable in monthly installments of $23, including interest at 9 00%, through May 1, 2033, secured by land, building and equipment	2,526	2,569
Mortgage payable in monthly installments of $33, including interest at 5 00%, through December 2017, secured by land, building and equipment	2,701	2,950
Mortgage payable in monthly installments of $29, including interest at 6 90% through April 2016 with a lump sum due at this time, secured by land and building	2,923	3,060
Other debt – Our Lady of Lourdes Regional Medical Center		
Note payable, payable upon demand, including interest at 5 50%, maturing April 2013, secured by equipment, inventory and accounts receivable	—	435
Note payable, due in monthly installments of $7, including interest at 5 75%, through January 2013 secured by 1 1 acres of property	—	59

(Continued)

(In thousands)

		2013	2012
Note payable, payable upon demand, including interest at 3 25% maturing October 2016, secured by equipment	$	2,150	2,787
Note payable, payable upon demand, including interest at 3 2% maturing May 2018, secured by equipment		306	—
Note payable, payable upon demand, including interest at 3 25% maturing April 2016, secured by equipment		514	705
Note payable, payable upon demand, including interest at 4 42%, maturing December 2014, secured by equipment		627	1,080
Other debt – St Elizabeth			
Note payable in monthly installments of $51, including interest at 5 15%, through October 15, 2015 secured by land, building, and equipment		3,794	4,203
Total long-term debt for FMOLHS		614,056	521,417
Less current installments of long-term debt		14,260	19,027
	$	599,796	502,390

FMOLHS and its affiliates participate in an Obligated Group Master Trust Indenture whereby the obligated issuers have agreed to be jointly and severally liable for timely payments due and for the performance and observance of all covenants and agreements pursuant to the trust indenture FMOLHS directs the proceeds of the borrowed funds to the particular affiliate benefiting therefrom and separate escrow funds are maintained by the trustee for each of the affiliates to support each affiliate's allocated portion of the bonds (see note 2) The total debt subject to the Obligated Group guarantee and Master Trust Indenture amounted to $598,515 and $503,569 as of June 30, 2013 and 2012, respectively

The Master Trust Indenture covering the bond issues contains numerous covenants typical of such agreements, including a liquidity ratio, debt service coverage ratio, and leverage ratio In addition, the Obligated Group members are subject to restrictions on maintenance of revenue, incurrence of additional debt, disposition of assets, maintenance of insurance, and other restrictions Obligations of the Obligated Group under the Master Trust Indenture are general obligations secured by the full faith and credit of the Obligated Group None of the bonds is secured by a mortgage on, or security interest in, any real or personal property of FMOLHS or its affiliates

In 2005, FMOLHS completed a system-wide refinancing for the purposes of advance refunding certain 1998A and 1998C bonds and providing additional capital by issuing four series of revenue bonds The following bond series were issued by the Louisiana Public Facilities Authority (the Authority) $80,000 fixed rate Revenue Bonds (Series 2005A), $100,000 variable rate Revenue Bonds (Series 2005B and 2005C in the amounts of $50,000 each), and $89,325 in variable rate Revenue and Refunding bonds (Series 2005D) The variable rate bonds were issued as auction rate securities The four bond issues total $269,325, of which approximately $83,000 represents refunding of existing bonds and the remainder of approximately $186,000 was designated for capital improvements, including facility modifications and additions and new equipment acquisitions

(In thousands)

In May 2008, FMOLHS tendered its 2005B and 2005C auction rate bonds and reissued 2005B and 2005C bonds at weekly variable interest modes In July and August 2008, the 2005D and 1998B auction rate bonds were tendered by FMOLHS and reissued at daily variable interest modes In August 2008, the 2008A bonds, which were preapproved by the Authority, were issued by FMOLHS These bonds, issued in the amount of $47,185, bear interest at a variable rate based upon a weekly index rate and are due in 2025 These bonds refunded $42,735 of the 1998A bonds and $3,225 of the 1998C bonds

In 2009, FMOLHS completed a system-wide issuance of $125,000 of Hospital Revenue Bonds Series 2009 (the 2009 Series) The proceeds for the 2009 Series were used for (i) acquiring, constructing, and equipping a replacement hospital for Lourdes, (ii) acquiring, constructing, and equipping improvement and renovations to the existing Lake facilities, to accommodate modern demands for space and utility and building a satellite outpatient facility in Livingston Parish, Louisiana, and (iii) paying the costs of issuance of the bonds

In addition to the issuance of the 2009 Series, FMOLHS (i) converted the interest rate from the daily variable interest modes to a fixed rate on the Series 1998B and (ii) converted the interest rate from the weekly variable interest modes top a fixed rate on the Series 2005C

In 2012, FMOLHS completed an issuance of $100,000 of Hospital Revenue Bonds Series 2012 (the 2012B Series) The proceeds for the 2012B Series were used for (i) acquiring, constructing, and equipping a patient tower and other capital improvements at the campus of the Lake and (ii) paying the costs of issuance of the bonds FMOLHS also completed a $56,530 issuance of Hospital Revenue Bonds Series 2012 (the 2012A Series) The proceeds for the 2012A Series were used to refund all outstanding 2005C bonds and prepayment cost

FMOLHS and FMOLHS Affiliates made cash payments for interest of $25,106 and $26,203 during the years ended June 30, 2013 and 2012, respectively

Aggregate maturities of long-term debt at June 30, 2013 follow

Year ending June 30		
2014	$	14,260
2015		14,241
2016		19,450
2017		13,393
2018		12,985
Thereafter		534,525
	$	608,854

(12) Interest Rate Swaps

FMOLHS uses interest rate related derivative instruments to manage its exposure related to changes in interest rates on its variable rate debt instruments FMOLHS does not enter into derivative instruments for any purpose other than cash flow hedging FMOLHS does not speculate using derivative instruments

By using derivative financial instruments to hedge exposures to changes in interest rates, FMOLHS exposes itself to credit risk and market risk Credit risk is the failure of the counterparty to perform under the terms of the derivative contract When the fair value of a derivative contract is positive, the counterparty owes FMOLHS, which creates credit risk for FMOLHS. When the fair value of a derivative contract is negative, FMOLHS owes the counterparty, and therefore, FMOLHS is not exposed to the counterparty's credit risk in those circumstances FMOLHS minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates Such risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken

FMOLHS entered into an interest rate swap agreement with Merrill Lynch Capital Services with respect to the 2005D refunding series Such agreement is intended to reduce the impact of changes in interest rates on the variable rate debt The swap agreement effectively changes FMOLHS's interest rate exposure on the 2005D variable rate debt to a fixed rate of 3 53%

In 2005, FMOLHS also obtained preapproval from the Louisiana Public Facilities Authority for the issuance of revenue refunding bonds in 2008 to advance refund the approximately $48,000 of 1998A and 1998C bonds In 2005, FMOLHS entered into a forward starting interest rate swap agreement with Goldman Sachs Capital Markets to effectively change FMOLHS's interest rate exposure on the 2008 bonds once issued from a variable rate to a fixed rate of 3 66%

In June 2007, FMOLHS entered into two Constant Maturity Swaps (CMS) with Merrill Lynch Under these swap agreements, FMOLHS receives variable rate payments based on the ten-year International Swaps and Derivatives Association Inc. (ISDA) swap rate and makes variable rate payments based on one-month LIBOR The total notional amount of the first swap is $88,325, with an effective date of July 1, 2008, and the total notional amount of the second swap is $49,075, with an effective date of May 29, 2008.

The interest rate swap agreements are not afforded hedge accounting treatment in the consolidated financial statements and are marked to fair value through the consolidated statements of operations The net unrealized gain (loss) on the interest rate swaps for the years ended June 30, 2013 and 2012 was $10,040 and $(14,118), respectively, and is included in nonoperating gains (losses) in the accompanying consolidated statements of operations

(In thousands)

The following is a summary of the contracts outstanding at June 30, 2013 and 2012 and are recorded, as applicable, in either other assets or other long-term liabilities

June 30, 2013

Related bond issuance		Notional amount	Maturity date	Average rate paid	Average rate received		(Decrease) increase in interest expense	Swap fair value
2005D	$	76,275	7/1/2028	3 53%	0 15%	$	2,579	(10,360)
2005D		76,275	7/1/2028	0 15	1 00		(647)	4,413
2008A		48,125	7/1/2025	3 66	0 15		1,689	(7,181)
2008A		48,125	7/1/2025	0 15	0 99		(408)	3,040

June 30, 2012

Related bond issuance		Notional amount	Maturity date	Average rate paid	Average rate received		(Decrease) increase in interest expense	Swap fair value
2005D	$	79,450	7/1/2028	3 53%	0 17%	$	2,669	(15,482)
2005D		79,450	7/1/2028	0 17	1 20		(823)	3,318
2008A		48,375	7/1/2025	3 66	0 17		1,687	(10,219)
2008A		48,375	7/1/2025	0 17	1 20		(500)	2,255

(13) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets restricted by time and purpose at June 30, 2013 and 2012 are available for the following purposes

		2013	2012
Healthcare services	$	13,784	8,525
Elderly housing		9,777	9,428
Building and equipment acquisitions		116	116
Educational services		3,437	2,612
Other		113	121
	$	27,227	20,802

Permanently restricted net assets at June 30, 2013 and 2012 totaled $5,300 and $5,510, respectively, the income from which is restricted for educational services

(In thousands)

Net assets released from restrictions for the years ended June 30, 2013 and 2012 are as follows

		2013	2012
Healthcare services	$	2,678	2,474
Elderly housing		142	133
Building and equipment acquisitions		(1,033)	—
Educational services and other		399	306
	$	2,186	2,913

(14) Net Patient Service Revenue

The FMOLHS Affiliates have agreements with governmental and other third-party payors that provide for reimbursement to the FMOLHS Affiliates at amounts different from their established rates Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. Management regularly analyzes the historical contractual adjustments for each payor group to determine if current estimates for contractual adjustment allowances need to be revised A summary of the basis of reimbursement with major third-party payors is as follows

(a) Medicare

Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive determination methodologies The FMOLHS Affiliates are paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicare fiscal intermediary The FMOLHS Affiliates' Medicare cost reports have been audited by the Medicare fiscal intermediary through varying years ranging from June 30, 2009 to June 30, 2010

(b) Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined per diem rates These rates vary according to a hospital classification system that is based on bed size, teaching status, and other factors Additional outlier payments are made for neonatal intensive care patients with extended lengths of stay Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology The FMOLHS Affiliates are paid at a tentative rate with final settlement determined after submission of annual cost reports by FMOLHS Affiliates and audits by the Medicaid fiscal intermediary The FMOLHS Affiliates' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through varying years ranging from June 30, 2004 to June 30, 2007 *(c)* ***Blue Cross***

(In thousands)

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates Outpatient services are paid based on a fee schedule

(d) ***Certain Commercial Insurance Carriers, Health Maintenance Organizations, and Preferred Provider Organizations***

Payment methodologies under these agreements include prospectively determined rates per discharge, discounts from established charges, prospectively determined per diem rates, and fee schedules

The FMOLHS Affiliates' net patient service revenue for the years ended June 30, 2013 and 2012 increased $29,840 and $8,523, respectively, due to changes in previously estimated allowances as a result of final settlements, closure on years that are no longer subject to audits, and prior year retroactive adjustments

With the expansion of prepayment reviews, including recovery audit contractor (RAC) reviews by The Centers for Medicare and Medicaid Services (CMS), the FMOLHS Affiliates continue to experience changes to net patient service revenue for prior years of service Due to completed, pending, and projected RAC reviews, the FMOLHS Affiliates' net patient revenue decreased by $3,700 for the year ended June 30, 2013

The FMOLHS's Affiliates' net patient service revenue is also reduced by provision for uncollectible accounts The historical collections and write-offs of bad debts are reviewed annually and periodically during the fiscal year to determine if adjustments need to occur to the allowance for uncollectible accounts The allowance for uncollectible accounts includes an analysis of self-pay patients without insurance coverage, and an analysis of deductibles and copayment balances for patients with insurance coverage FMOLHS's Affiliates' allowance for uncollectible accounts increased $73,112 and is primarily due to an increase in the self-pay payor mix

Presented below is a summary of amounts comprising net patient service revenue for the years ended June 30, 2013 and 2012

		2013	2012
Inpatient revenue	$	1,722,505	1,674,711
Outpatient revenue		1,734,913	1,465,374
Gross patient service revenue		3,457,418	3,140,085
Less provision for contractual and other adjustments		1,987,460	1,820,550
Less provision for uncollectible accounts		161,838	123,500
Net patient service revenue	$	1,308,120	1,196,035

(In thousands)

The composition of net patient service revenue, before provision for uncollectible accounts, by major payor source is as follows

	2013	Percentage	2012	Percentage
Medicare	$ 468,148	32%	$ 433,690	33%
Medicaid	101,538	7	92,717	7
Blue Cross	348,772	24	320,242	24
Self-pay	199,114	13	131,457	10
Managed care/other	352,386	24	341,429	26
	$ 1,469,958	100%	$ 1,319,535	100%

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law by President Obama The impact of the Health Care Acts is complicated and difficult to predict, but FMOLHS anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models Many healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors, employers, and individuals FMOLHS continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009 In the context of the HITECH Act, FMOLHS must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT) The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology FMOLHS anticipates that its current efforts at implementing an enterprise-wide EHR will enable its compliance with Meaningful Use objectives mandated in the HITECH legislation

(15) Business and Credit Concentrations

The FMOLHS Affiliates grant credit to their patients, substantially all of whom are local residents The FMOLHS Affiliates generally do not require collateral or other security in extending credit to patients, however, they routinely obtain assignment of (or are otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e g , Medicare, Medicaid, Blue Cross, health maintenance organizations, preferred provider arrangements, and commercial insurance policies)

(In thousands)

The mix of accounts receivable from patients and third-party payors at June 30, 2013 and 2012 is as follows

	2013	2012
Medicare	27%	28%
Medicaid	9	12
Blue Cross	20	13
Self-pay	13	21
Managed care/other	31	26
	100%	100%

(16) Related-party Transactions

The FMOL Sisters formed the Franciscan Fund (Fund) to support community programs in the operating areas of the FMOLHS hospitals Each FMOLHS hospital makes contributions to the Fund based on a percentage of earnings determined by the Fund, then can submit grant applications to the Fund to receive moneys back for supporting its community programs Grant making decisions are made by the FMOL Sisters and no guarantee is provided that each hospital will receive back their specific contribution amounts in the form of a formal grant from the Fund During 2013 and 2012, FMOLHS made no contributions to the Fund

During 2011, FMOLHS Affiliates entered into an Operating Agreement with Capital Area Shared Services Organization, a related party The agreement has an initial term expiring December 2016 The Operating Agreement requires FMOLHS Affiliates to commit to pay certain sublicense fees relating to its use of the services made available to the related third party and to pay certain implementation and system build costs and other costs contemplated under an information system contract for a period through December 31, 2016 At June 30, 2013, FMOLHS has approximately $5,667 included in other assets related to these agreements

The affiliation agreement between FMOLHS Affiliate and Mary Bird Perkins Cancer Center was effective July 1, 2012 This agreement is to further enhance the cancer program operations, including clinical research, and to provide the community with comprehensive cancer care services The cost of this program is shared by both entities and the operating expense for FMOLHS for the year ended June 30, 2013 was $424

During 2013, FMOLHS Affiliate also entered into Management Services agreements with Mary Bird Perkins Cancer Center to manage the business operations of medical oncology services The services provided by Mary Bird Perkins Cancer Center included management of operations, scheduling and registration of patients, management of billing and collections services, and staffing support for clinical and nonclinical personnel The management services and staffing expenses incurred for the year ended June 30, 2013 were $1,130

Effective February 2012, FMOLHS amended the Operating Agreement with Resource Optimization & Innovation, LLC, which is organized to facilitate and administer the purchasing, manufacturing, processing, and distribution of medical and pharmaceutical products and services at competitive prices FMOLHS's ownership percentage in Resource Optimization & Innovation, LLC is 10%, and the equity in income from this equity investee for the year ended June 30, 2013 was $1,402

Certain members of the Council of the Franciscan Missionaries of Our Lady-North Province, Inc (Province) are included as covered employees of this defined benefit plan For the years ended June 30, 2013 and 2012, the Province's share of the net pension cost was $16 and $29, respectively

(Continued)

(In thousands)

(17) Retirement Plans

(a) Defined Benefit Plans

FMOLHS Affiliates sponsor various defined benefit plans (the Plans) The following table at June 30, 2013 and 2012 sets forth, in the aggregate, the Plans' changes in benefit obligations, changes in plan assets, and the funded status of the Plans

		2013	2012
Change in benefit obligation			
Projected benefit obligation, beginning of year	$	724,658	588,635
Service cost		26,037	22,064
Interest cost		34,719	33,411
Actuarial (gains) losses		(28,982)	95,491
Benefits paid		(16,644)	(14,943)
Projected benefit obligation, end of year		739,788	724,658
Change in plan assets			
Fair value of plan assets, beginning of year		420,067	412,632
Actual return on plan assets		51,055	(1,652)
Contributions made		20,358	24,030
Benefits paid		(16,644)	(14,943)
Fair value of plan assets, end of year		474,836	420,067
Funded status	$	(264,952)	(304,591)
Amounts recognized in the consolidated balance sheets consist of			
Accrued pension cost	$	(264,952)	(304,591)
Unrestricted net assets		150,657	218,395
Amounts recognized in unrestricted net assets			
Prior service cost	$	(1,544)	(1,781)
Net actuarial loss		152,201	220,176
	$	150,657	218,395

Weighted average assumptions used to determine the projected benefit obligations at June 30, 2013 and 2012 were as follows

	2013	2012
Weighted average discount rate	5 17%	4 85%
Rate of compensation increase	3 50–4 25	3 50–4 25

(Continued)

(In thousands)

Net periodic pension cost for the years ended June 30, 2013 and 2012 includes the following components

		2013	2012
Service cost, benefits earned during the year	$	26,037	22,064
Interest cost on projected benefit obligation		34,719	33,411
Expected return on plan assets		(33,032)	(32,674)
Amortization of actuarial losses		20,971	5,074
Amortization of prior service cost		(237)	(236)
Net periodic pension cost		48,458	27,639
Other changes in plan assets and benefit obligations recognized in unrestricted net assets			
Net actuarial loss (gain)		(47,004)	129,818
Amortization of net actuarial losses (gains)		(20,971)	(5,074)
Amortization of prior service cost		237	135
Prior service credit		—	102
		(67,738)	124,981
Total recognized in net periodic benefit costs and unrestricted net assets	$	(19,280)	152,620

Weighted average assumptions used to determine net periodic pension cost for the years ended June 30, 2013 and 2012 were as follows

	2013	2012
Weighted average discount rate	4 85%	5 75%
Expected return on plan assets	8 00	8 00
Rate of compensation increase	3 50–4 25	3 50–4 25

(Continued)

(In thousands)

The defined benefit pension plan asset allocation as of the measurement date (June 30, 2013 and 2012) and the target asset allocation, presented as a percentage of total plan assets, were as follows

	2013	2012	Target allocation
U S Equity	22%	17%	15%–25%
Global equity	15	13	10–20
Real assets	8	8	5–15
Fixed income and cash	16	33	10–25
Emerging markets	5	4	3–10
Alternative investments – hedge funds	30	21	15–35
Alternative investments – private equity funds	4	4	2–10

FMOLHS overall expected long-term rate of return on assets is 8 0% The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories The return is based on historical returns, without adjustments

FMOLHS provides investment oversight for all of the FMOLHS Affiliates' defined benefit plans Asset allocations and investment performance are formally reviewed quarterly by the FMOLHS Investment Committee (Investment Committee) FMOLHS utilizes an investment advisor, multiple managers for different asset classes, and a separate custodian in managing the pooled funds

The asset allocation is designed to provide a diversified mix of asset classes, including U S and foreign equity securities, fixed income securities, hedge funds, real estate investment trusts, and cash The investment goals for the pooled funds are to achieve returns in the top half of a representative universe of professionally managed funds with a percentage of equity, fixed income, and alternate investments to be indicative of the asset mix policy of the fund, to exceed the return of a balanced market index weighted to replicate the asset allocation policy of the plan, to exceed the rate of inflation as measured by the consumer price index (CPI) by at least 500 basis points on an annualized basis, to achieve a positive risk-adjusted return, and to achieve a rate of return above the current actuarial assumption Risk management practices include various criteria for each asset class, including measurement against various benchmarks, achievement of a positive risk-adjusted return, and investment guidelines for each class of assets that enumerate types of investments allowed in each category

FMOLHS's retirement plan assets are reported at fair value Level 1 assets include investments in publicly traded equity securities and mutual funds These securities (or the underlying investments of the funds) are actively traded and valued using quoted prices for identical securities from the market exchanges Level 2 assets consist of fixed-income securities and comingled funds that are not actively traded or whose underlying investments are valued using observable marketplace inputs The fair value of plan assets invested in fixed-income securities is generally determined using valuation models that use observable inputs such as interest rates, bond yields, low-volume market quotes, and quoted prices for similar assets Plan assets that are invested in comingled, hedge, and private equity funds are valued using a unit price or net asset value (NAV) that is based on the underlying investments of the fund Level 3 assets include investments in private equities and hedge funds valued using significant un-observable inputs

(In thousands)

The following is a summary of the levels within the fair value hierarchy of plan assets as of June 30, 2013 and 2012

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Asset category				
Cash	$ 19,515	—	—	19,515
Equity securities				
U S companies	74,740	—	28,246	102,986
International companies	47,992	22,809	—	70,801
Real assets	22,672	15,876	—	38,548
Fixed income securities				
U S government guaranteed	4,278	—	—	4,278
U S agency	—	11,965	—	11,965
Corporate	—	17,299	—	17,299
Municipal	—	785	—	785
Other	15,766	2,161	2,826	20,753
Emerging markets	—	12,527	12,838	25,365
Alternative asset funds				
Hedge funds	—	—	143,130	143,130
Private equity funds	—	—	19,411	19,411
Total	$ 184,963	83,422	206,451	474,836

(In thousands)

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Asset category				
Cash	$ 32,597	—	—	32,597
Equity securities				
U S companies	45,831	11,668	15,758	73,257
International companies	39,480	13,078	—	52,558
Real assets	17,468	13,965	—	31,433
Fixed income securities				
U S government guaranteed	7,881	—	—	7,881
U S agency	—	11,805	—	11,805
Corporate	—	17,521	—	17,521
Municipal	—	1,252	—	1,252
Other	11,742	53,645	2,678	68,065
Emerging markets	—	7,424	8,866	16,290
Alternative asset funds				
Hedge funds	—	—	89,843	89,843
Private equity funds	—	—	17,565	17,565
Total	$ 154,999	130,358	134,710	420,067

There were no transfers into or out of Level 1, Level 2 and Level 3 investments during fiscal 2013 and 2012

(In thousands)

The fair values of the following plan assets have been estimated using the net assets value per share as of June 30, 2013 and 2012

		2013	2012	Redemption terms**	Notice period (days)	Remaining life**
Asset category						
U S equity funds (a)	$	28,246	15,758	Quarterly	60	—
International equity funds (b)		22,809	13,078	Monthly	10	—
International emerging markets (c)		25,365	16,289	Monthly	30	—
Fixed income special situations fund (d)		2,826	2,678	—	—	1 year
Hedge fund of funds (e)		143,130	89,843	Quarterly – annually	30 – 180	—
Real asset funds (f)		15,876	13,965	Monthly	24	—
U S venture capital funds (g)		4,645	4,267	—	—	4 – 6 years
U S private equity (h)		3,218	3,107	—	—	4 – 6 years
International private equity (i)		3,493	2,424	—	—	4 – 6 years
Natural Resources (j)		5,491	5,275	—	—	4 – 6 years
Private real estate (k)		2,565	2,493	—	—	1 year

** Information reflects a range of various terms from multiple investments

(a) The primary objective of the U S equity funds is to match the risk and return characteristics of the S&P 500 Index

(b) The international equity fund's investment objective is to outperform the MSCI World Market Index by investing in a portfolio of publicly traded equity securities

(c) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U S , emerging market equities

(d) The primary objective of the fixed income special situations fund is to outperform the S&P LSTA Leveraged Loan Index by focusing their investments in asset-based lending, on a senior-secured basis, to companies for working capital, project financing, refinancing and capital structure improvement

(e) The hedge fund of funds' objective is to develop and actively maintain an investment portfolio of long-term returns through strategies such as multi-strategy, event focused, distressed, U S long/short, and global long/short

(f) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally

(Continued)

(In thousands)

(g) U.S venture capital funds invest in target funds, which in turn, make venture capital investments primarily in emerging growth companies with the objective of obtaining long term growth capital

(h) U S private equity funds invest in private limited partnerships, which in turn, make investments in equity securities, warrants, or other options that are generally not actively traded at the time of investment

(i) International private equity funds invest in limited partnerships, which in turn, make international private equity investments with the objective of obtaining long-term growth of capital

(j) Natural resources funds invest in limited partnerships, which in turn, make oil, gas, and timber investments

(k) Private real estate invest its capital on a pari passu basis in certain real estate funds formed as limited partnerships, limited liability companies, private real estate investment trusts or similar entities that will, in turn, invest in office, retail, industrial and other commercial real estate properties, as well as in select residential properties, or in real estate-related securities

The following tables present a roll-forward of the fair value of Level 3 (significant unobservable inputs) plan assets for the years ended June 30, 2013 and 2012

	June 30, 2013					
	Hedge Fund	Private Equity	Emerging Markets	Equity	Fixed Income	Total
Beginning balance as of June 30, 2012	$ 89,843	17,565	8,866	15,758	2,678	134,710
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—
Total gains or losses						
Realized and unrealized gains and losses						
Relating to assets held at end of year	14,317	1,741	472	4,488	201	21,219
Relating to assets sold during the year	(457)	—	—	—	—	(457)
Purchases, issuances, sales, and settlements						
Purchases	40,750	1,686	3,500	8,000	668	54,604
Sales	(1,323)	(1,581)	—	—	(721)	(3,625)
Ending balance as of June 30, 2013	$ 143,130	19,411	12,838	28,246	2,826	206,451

(In thousands)

	June 30, 2012					
	Hedge Fund	Private Equity	Emerging Markets	Equity	Fixed Income	Total
Beginning balance as of June 30, 2011	$ 90,056	15,627	11,008	14,288	1,576	132,555
Transfers into Level 3	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—
Total gains or losses						
Realized and unrealized gains and losses						
Relating to assets held at end of year	(881)	1,119	(2,142)	1,470	4	(430)
Relating to assets sold during the year	222	—	—	—	—	222
Purchases, issuances, sales, and settlements						
Purchases	9,135	2,226	—	—	1,760	13,121
Sales	(8,689)	(1,407)	—	—	(662)	(10,758)
Ending balance as of June 30, 2012	$ 89,843	17,565	8,866	15 758	2 678	134,710

The asset allocation policy provides for a range of minimum and maximum investments in each asset class to allow flexibility in achieving expected long-term rate of return Historical return patterns and correlations, consensus return forecast, and other relevant financial factors are analyzed to check for reasonableness and appropriateness of the asset allocation to ensure that the probability of meeting actuarial assumptions is reasonable The Investment Committee monitors manager performance, rate of return, and risk factors on a quarterly basis and makes required adjustments to achieve expected returns

As of June 30, 2013 and 2012, the plans had accumulated benefit obligations (ABO) of $657,150 and $637,633, respectively At June 30, 2013 and 2012, the fair value of plan assets falls short of the ABO by $182,312 and $217,566, respectively

The estimated net gain (loss) and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $(11,058) and $(20,733), respectively

Future benefit payments expected to be paid in each of the next five fiscal years and five years thereafter as of June 30, 2013 are as follows

Year(s) ending June 30		
2014	$	19,982
2015		22,803
2016		25,770
2017		28,720
2018		31,822
2019–2023		205,959

(In thousands)

(b) Defined Contribution Plans

The FMOLHS Affiliates also sponsor 403(b) and 401(k) plans These defined contribution plans are available to substantially all employees No contributions are made to the plans by the FMOLHS Affiliates

The defined benefit pension plan was closed to new entrants in 2006 and a new defined contribution plan was created for those hired after June 30, 2006, the FMOL Health System Retirement Plan (FMOL Plan) Substantially all employees of the FMOLHS Affiliates meeting eligibility requirements may participate in the FMOL Plan The FMOLHS Affiliates may annually elect to make a contribution on behalf of those participants in an amount determined by the FMOLHS Affiliates Contribution expense of $7,100 and $4,085 was recorded for the years ended June 30, 2013 and 2012, respectively

(c) Retiree Medical Plan

Lourdes offers partially subsidized healthcare benefits to employees who retired before June 30, 2006 Costs are accrued for this plan during the service lives of covered employees Retirees contribute a portion of the self-funded cost of healthcare benefits and Lourdes contributes the remainder The healthcare plan is funded on a pay-as-you-go basis Lourdes retains the right to modify or terminate the benefits and/or cost sharing provisions The accrued liability for such benefits was approximately $823 and $819 at June 30, 2013 and 2012, respectively, and is included in other long-term liabilities.

(18) Functional Expenses

The FMOLHS Affiliates provide healthcare and other services to residents within its service area Expenses related to providing these services for the years ended June 30, 2013 and 2012 are as follows

		2013	2012
Healthcare services	$	976,031	845,079
General and administrative		393,276	394,146
Educational services		21,255	20,350
Fund-raising		3,132	2,930
	$	1,393,694	1,262,505

(In thousands)

(19) Fair Value of Financial Instruments

(a) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the consolidated balance sheets, except for long-term debt, approximate their estimated fair values, in all significant respects, at June 30, 2013 and 2012

FMOLHS's financial instruments for which estimated fair values differ from their carrying amounts at June 30, 2013 and 2012 are summarized as follows

	2013		2012	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
Liabilities – long-term debt	$ 614,056	642,446	521,417	578,881

The fair value of long-term debt which is a Level 2 estimate is determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly trade debt markets for debt of similar terms to companies with comparable credit risk

(Continued)

(In thousands)

(b) Fair Value Hierarchy

The following tables present the placement in the fair value hierarchy of assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2013 and 2012

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets category				
Equity securities				
U S companies	$ 90,223	—	—	90,223
International companies	60,884	—	—	60,884
Real assets	28,059	22,901	—	50,960
Fixed income securities				
U S government guaranteed	8,575	—	—	8,575
U S agency	—	29,372	—	29,372
Corporate	—	30,705	—	30,705
Municipal	—	11,507	—	11,507
Other	55,332	6,388	—	61,720
Emerging markets	—	19,034	—	19,034
Alternative asset funds				
Hedge funds	—	109	—	109
Interest rate swaps	—	7,453	—	7,453
Total – categorized	$ 243,073	127,469	—	370,542
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				469,808
				$ 840,350
Liabilities				
Interest rate swaps	$ —	17,541	—	17,541

(Continued)

(In thousands)

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets category				
Equity securities				
U S companies	$ 63,948	—	—	63,948
International companies	59,610	—	—	59,610
Real assets	28,977	25,676	—	54,653
Fixed income securities				
U S government guaranteed	3,620	—	—	3,620
U S agency	—	40,712	—	40,712
Corporate	—	34,717	—	34,717
Municipal	—	1,392	—	1,392
Other	46,894	6,503	—	53,397
Emerging markets	—	16,705	—	16,705
Comingled funds				
Equity funds	—	—	100	100
Interest rate swaps	—	5,573	—	5,573
Total – categorized	$ 203,049	131,278	100	334,427
Assets limited as to use and short-term investments accounted for using the equity method and cash – uncategorized				382,699
				$ 717,126
Liabilities				
Interest rate swaps	$ —	25,701	—	25,701

The fair values of the following investments have been estimated using the net assets value per share as of June 30, 2013 and 2012

	2013	2012	Redemption terms**	Notice period (days)	Remaining life**
Asset category					
International emerging markets (a)	$ 19,034	16,705	Monthly	30	—
Real asset funds (b)	22,901	25,676	Monthly	24	—

** Information reflects a range of various terms from multiple investments

(a) The investment objective of the international emerging markets equity funds is to outperform the MSCI Emerging Markets Index, net of dividend withholding taxes, by investing in a portfolio of non-U S , emerging market equities

(b) The real asset funds seek to generate a total return in the long-term through investments in commodity-related instruments globally

FMOLHS's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer There were no significant transfers into or out of Level 1, Level 2, or Level 3 for the years ended June 30, 2013 or 2012

The investments classified as Level 2 are as follows

- Shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of FMOLHS's interest therein, its classification in Level 2 is based on FMOLHS's ability to redeem its interest at or near the date of the consolidated balance sheets If the interest can be redeemed in the near term, the investment is classified in Level 2 The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities
- Bonds whose fair values are determined by independent vendors The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued

(c) Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision Changes in assumptions could significantly affect the estimates

(20) Insurance Programs

The FMOLHS Affiliates are qualified under the State of Louisiana medical malpractice program and are Self-insured for the first $100 of professional liability per occurrence, additional coverage is provided by the Louisiana Patients' Compensation Fund for the next $400 of professional liability up to the present statutory maximum of $500 per claim (exclusive of additional amounts for future medical expenses provided by law) FMOLHS's professional and general liability insurance program is managed through Louise, its wholly owned captive insurer As of June 30, 2013, FMOLHS has significant excess insurance coverage in place for general and professional liability risks, with a $2,000 self-insured retention for professional liability and a $1,000 layer of self-insurance for general liability A $6,000 aggregate sits above these limits, covering general and professional liability Incurred losses identified under FMOLHS's incident reporting system and incurred, but not reported losses are accrued based on estimates that incorporate FMOLHS's past experience, as well as other considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries The reserve for estimated professional and general liability costs is approximately $31,888 and $29,754 as of June 30, 2013 and 2012, respectively Claims liabilities are estimated at a present value of future claims payments using a discount rate of 3% at June 30, 2013

FMOLHS has established a self-insurance trust fund for payment of liability claims and makes deposits to the fund in amounts determined by consulting actuaries FMOLHS also has substantial excess liability coverage available under the provisions of certain claims-made policies, currently expiring on June 30, 2013 To the extent that any claims-made coverage is not renewed or replaced with equivalent value insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured Management believes, based on incidents identified through the incident reporting process that any such claims would not have a material effect on FMOLHS's results of operations or financial position In any event, management anticipates that the claims-made coverage currently in place will be renewed or replaced with equivalent insurance as the term of such coverage expires

FMOLHS is also self-insured with respect to employee health coverage (up to $500 limit per claim) and workers' compensation (up to a limit of $400 per individual claim) Substantial coverage with a third-party carrier is maintained for potential excess losses under the workers' compensation program The employee health self-insured reserves are approximately $7,939 and $7,428 as of June 30, 2013 and 2012, respectively, and are included in other current liabilities in the consolidated balance sheets The workers' compensation reserves are approximately $14,522 and $13,107 as of June 30, 2013 and 2012, respectively, and are included in professional and general liabilities in the consolidated balance sheets

(Continued)

(In thousands)

(21) Leases – Lessor

FMOLHS Affiliates lease office space and clinical facilities, generally to medical staff members, under operating leases The terms of these leases range from month-to-month to 10 years Assets held for lease at June 30, 2013 and 2012 consist of buildings and improvements with an original cost of $233,559 and $181,641, respectively, and fixed equipment with an original cost of $14,707 and $11,813, respectively Total accumulated depreciation is $103,578 and $68,048 at June 30, 2013 and 2012, respectively Future minimum lease payments to be received at June 30, 2013 are as follows

Year ending June 30		
2014	$	10,888
2015		9,251
2016		7,075
2017		6,176
2018		5,845
Thereafter		25,008
	$	64,243

(22) Commitments and Contingencies

(a) Investments

As it relates to alternative assets, FMOLHS is obligated under certain limited partnership agreements to provide advance funding up to specific levels upon the request of the general partner. See note 2(b)

(In thousands)

(b) *Capital Leases*

As of June 30, 2013, FMOLHS Affiliates were obligated under various capital leases, each with noncancelable terms in excess of one year Future minimum lease payments as of June 30, 2013 are as follows

Year ending June 30		
2014	$	8,689
2015		7,582
2016		5,024
2017		98
Total minimum lease payments		21,393
Less amounts representing interest (rates ranging from 6 0% to 14 5%)		1,344
Present value of future minimum lease payments		20,049
Less current portion of capital lease obligations		7,586
Capital lease obligations excluding current portion	$	12,463

The net book value of assets under capital lease as of June 30, 2013 and 2012 was $19,754 and $22,630, respectively

For the years ended June 30, 2013 and 2012, FMOLHS entered into new capital leases for equipment in the amount of $1,382 and $7,693, respectively

In 2013, the FASB issued for comment *Proposed Accounting Standards Update-Leases (Revised) (Topic 840)* After receiving and considering significant feedback, the FASB intends to issue a related final ASU in calendar year 2014 This new guidance is expected to require FMOLHS to recognize virtually all of its leases in the consolidated balance sheet Assuming the ASU is in fact issued, adoption will cause considerable changes in the presentation of FMOLHS's debt and interest expense in its consolidated financial statements (among other things) Management is reviewing the implications of the proposed ASU for FMOLHS, including potential implications for many complex agreements and arrangements, which might be impacted by this potential major accounting change While that work is ongoing, management is optimistic that there will not be material issues associated with important related matters, such as overall FMOLHS credit ratings or future debt covenant compliance *(c)* ***Operating Leases – Lessee***

(In thousands)

Rental expense for all operating leases totaled $14,081 and $11,376 for the years ended June 30, 2013 and 2012, respectively Future minimum rental payments under operating leases that have initial or remaining noncancelable terms in excess of one year as of June 30, 2013 follow

Year ending June 30		
2014	$	12,319
2015		10,676
2016		9,720
2017		7,620
2018		3,283
Thereafter		7,837
	$	51,455

(d) ***Specialty Extended Care Hospital of Monroe***

During the years ended June 30, 2013 and 2012, St Francis had a leasing arrangement with Specialty Extended Care Hospital of Monroe, LLC (Extended Care), a distinct and separate long-term care hospital, with rates based on square footage In addition to the lease arrangement, a separate services agreement existed for the provision of ancillary, clinical, and support services, based on fair market value rates This lease and services agreement was effective November 1, 2009 between St Francis and St Francis Specialty Hospital (Specialty), and was subsequently assigned to Extended Care as a result of an asset purchase agreement between Specialty and Extended Care The initial term was for five years, with automatic renewal of the lease for subsequent one-year terms unless written notice is given Rental income and income related to the services agreement with Extended Care totaled $2,637 and $2,594 for the years ended June 30, 2013 and 2012, respectively Amounts due from Extended Care at June 30, 2013 and 2012 were $785 and $506, respectively

(e) ***Community Health Center Lease***

An amended lease was executed by St Francis for the Community Health Center (CHC) space during the year ended June 30, 1998 The amended lease provided for an expansion of the leased premises through construction of an addition to the CHC building by St Francis Ambulatory Services, Inc (SFASI) at the leased site The building was completed during the year ended June 30, 1999, and SFASI took occupancy of the building Concurrently, the lease term was extended through August 31, 2014, and annual rentals increased to $449 through September 2008 and the greater of $601 annually, or an increase based upon the CPI through termination of the lease

(f) ***Perkins Plaza ASC***

The Lake's subsidiary, Perkins Plaza Medical Arts Development (PPMAD), has a lease with Perkins Plaza ASC, an equity investment, whereby PPMAD receives minimum rent of $797 per year subject to annual adjustments Monthly rental installments were $70 from January 2012 through

December 2012 and $62 beginning in January 2013 The lease is currently on a month-to-month basis

(g) ***Asset Retirement Obligations***

FMOLHS recognizes obligations associated with the future retirement of long-lived assets Estimated asset retirement obligations of $3,379 and $3,462 for the years ended June 30, 2013 and 2012, respectively, are classified as a long-term liability

(h) ***Contingent Liabilities***

FMOLHS and the FMOLHS Affiliates have certain pending and threatened litigation and claims incurred in the ordinary course of business, however, management believes that the probable resolution of such contingencies will not exceed the self-insurance reserves or insurance coverage, and will not materially affect the financial position or the results of operations

St Francis, the Lake, and Lourdes received notice that each are included in a national investigation conducted by the Department of Justice concerning implantable cardioverter defibrillators Each hospital is cooperating fully in the investigation Although the results of the investigation cannot be predicted with certainty, management believes the outcome will not have a material adverse effect on the consolidated financial statements

(i) ***Regulatory Compliance***

The U S Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigations and compliance audits of healthcare providers The FMOLHS Affiliates are subject to these regulatory efforts and have corporate compliance committees that monitor and respond to regulatory changes and any issues that may arise. FMOLHS does not expect this matter to have a material adverse effect on its financial position, results of operations, or liquidity

In consultation with legal counsel, management is not aware of any issues that could have a material adverse effect on the FMOLHS Affiliates' financial position or results of operations

(j) ***Information Technology Contract***

During fiscal year 2009, FMOLHS entered into a variety of contracts with a major information technology vendor The agreements are generally for terms of seven years The contracts generally commit FMOLHS to the purchase of a variety of information technology products and services from this vendor for defined payment streams over the terms of the contracts Certain software license and related implicit maintenance costs were capitalized at the inception of the agreements in the amount of $17,621, with recognition of an associated liability related to FMOLHS's acquisition of these intangible assets Capitalized software and implied maintenance costs are being amortized over the estimated useful life of the software licenses (generally seven years) and the implicit maintenance period (which varies depending on first date of productive use), respectively Other contract costs are evaluated for capitalization or expense recognition under relevant accounting literature as associated products and/or services are provided

(Continued)

(In thousands)

The following table summarizes FMOLHS's future payment commitments under the contract as of June 30, 2013

	Capitalized software obligation	Other
2014	$ 3,137	9,594
2015	3,137	9,594
2016	1,047	2,417
Total	7,321	$ 21,605
Less amounts representing interest at 6 74%	601	
Long-term obligation (included in other long-term liabilities)	$ 6,720	

(23) Cooperative Endeavor Agreement

As part of its mission to ensure an appropriate supply of medical professionals in its service area and improve graduate medical education in the region, the Lake entered into an agreement with the State of Louisiana Department of Health and Hospitals (DHH) and Louisiana State University Health Sciences (LSU) in February 2010 The parties received associated governmental approval of the agreement from the Center for Medicare and Medicaid Services (CMS) on July 13, 2010 Major components of the agreement are as follows

- The Lake will construct a medical education building (MEB) to house LSU training programs (to be donated by the Lake to LSU at completion of construction), expand its clinical capacity by 60 licensed beds, and implement a Trauma Center The Lake recorded $19,000 in other current liabilities in the consolidated balance sheets as of June 30, 2013 and an associated other expense was recorded in the consolidated statement of operations for the year ended June 30, 2012 to reflect its promise to give in accordance with relevant accounting literature, related to the MEB The projected completion date for the MEB is November 2013
- DHH will provide payments under a new reimbursement structure to the Lake, which are intended to compensate the Lake for incremental costs associated with higher Medicaid and uninsured patient volumes that are generally expected to accompany the Lake's increased role in LSU's graduate medical education program The prospective payments received through June 30, 2013 are based on estimated cost for Medicaid and uninsured patients, a reconciliation of all costs and payments made pursuant to this agreement will occur in fiscal year 2014 As a result, a portion of the payments received were recorded a deferred revenue Upon completion of this reconciliation, any amounts recorded as deferred revenue will be re-evaluated

The Cooperative Endeavor Agreement was amended on April 10, 2013 to ensure viability of existing LSU Health outpatient facilities and patient care services and programs The major components of the amended agreement include

- The Lake manages and operates the operations of LSU Health outpatient facilities. The reimbursement structure of the agreement was revised to include payment to the Lake for the operations of these facilities Lease agreements were implemented for LSU Health outpatient facilities and equipment
- GME program amendments were implemented for assignment of GME reimbursement caps
- Clinical service agreements were implemented with LSU School of Medicine to provide professional services at the LSU Health clinics

(24) Subsequent Events

FMOLHS has evaluated subsequent events from the balance sheet date through October 29, 2013, the date at which the consolidated financial statements were available to be issued, and determined that there were no other items to disclose

SUPPLEMENTAL SCHEDULES

Schedule I

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Balance Sheet Information

June 30, 2013
(with comparative totals as of June 30 2012)

(In thousands)

Assets	Franciscan Missionaries of Our Lady Health System, Inc	Our Lady of the Lake Regional Medical Center, Inc and affiliated organizations	St. Elizabeth Hospital	St Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Others	Eliminations	Total 2013	Total 2012
Current assets									
Cash and cash equivalents	$ 10 356	75 120	18 247	1 354	17 288	9 572	—	131 937	190 006
Short-term investments	2 172	16 710	—	2	—	347	—	19 231	17 538
Receivables									
Patients	—	248 157	27 486	59 471	47 806	9	—	382 929	264 896
Less allowance for uncollectible accounts	—	(103,876)	(14,446)	(12,690)	(15,243)	—	—	(146,255)	(73,144)
Net patient receivables	—	144,281	13 040	46 781	32 563	9	—	236 674	191 752
Other current assets	8,277	88,556	3,518	18,933	13,433	1,859	(7,035)	127,541	81,714
Total current assets	20 805	324 667	34 805	67 070	63 284	11 787	(7 035)	515 383	481 010
Noncurrent assets limited as to use	—	532,057	5 396	171 087	13 547	32 162	—	754 249	668 512
Property and equipment net	48,695	624,085	54,076	106 249	268 346	1 352	—	1 102 803	999 262
Other assets	10,953	91,591	6,533	30,614	34,269	6,219	(27,797)	152 382	112,761
Total assets	$ 80,453	1,572,400	100,810	375,020	379,446	51,520	(34,832)	2,524,817	2,261,545
Liabilities and Net Assets									
Current liabilities									
Lines of credit	$ —	—	835	—	—	—	—	835	5 996
Current installments of long-term debt	—	7 339	429	2 853	3 639	—	—	14 260	19 027
Current portion of capital lease obligations	3 132	553	152	537	3 212	—	—	7,586	5 103
Accounts payable	4 925	60 367	3 519	10,628	8 890	415	(539)	88 205	53 435
Other current liabilities	7 256	130,148	13,415	19 294	18 295	21 055	(6 496)	202 967	169,200
Total current liabilities	15 313	198 407	18 350	33 312	34 036	21 470	(7 035)	313 853	252 761
Professional and general liabilities excluding current portion	1 172	16 386	2 445	7 009	3 872	26 466	(26 024)	31 326	28 472
Long-term debt excluding current installments	—	301 643	15 086	134 573	148 494	—	—	599 796	502 390
Capital lease obligations excluding current portion	4 815	334	413	147	6 754	—	—	12 463	21 469
Accrued pension cost	—	165,177	—	44,490	55,285	—	—	264,952	304 591
Other long-term liabilities	17,782	583	—	2,143	2,415	1,859	—	24,782	52,905
Total liabilities	39,082	682,530	36,294	221,674	250,856	49,795	(33,059)	1,247,172	1,162,588
Net assets									
Unrestricted	41 371	840 482	64 275	152 227	123 587	1 637	(1 773)	1 221 806	1 065 480
Temporarily restricted	—	25 118	323	1 119	579	88	—	27 227	20 802
Permanently restricted	—	5,300	—	—	—	—	—	5,300	5 510
Total net assets attributable to Franciscan Missionaries of Our Lady Health System, Inc	41 371	870 900	64 598	153 346	124 166	1 725	(1 773)	1 254 333	1 091 792
Noncontrolling interests	—	18,970	(82)	—	4,424	—	—	23,312	7,165
Total net assets	41,371	889,870	64,516	153,346	128,590	1,725	(1,773)	1,277,645	1,098,957
Total liabilities and net assets	$ 80,453	1,572,400	100,810	375,020	379,446	51,520	(34,832)	2,524,817	2,261,545

See accompanying independent auditors report

Schedule 2

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

Year ended June 30, 2013
(with comparative totals for the year ended June 30 2012)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Others	Eliminations	Total 2013	Total 2012
Changes in unrestricted net assets									
Unrestricted revenues									
Net patient service revenue	$ —	863 620	104 620	261 894	239,824	—	—	1 469 958	1 319 535
Provision for uncollectible accounts	—	(109 052)	(18 219)	(11 852)	(22 209)	(506)	—	(161,838)	(123,500)
Net patient service revenue	—	754 568	86 401	250 042	217,615	(506)	—	1 308 120	1 196 035
Other revenue	92 595	68 854	1 808	10 447	8 832	19 468	(108 315)	93 689	89 943
Equity in income from equity investees net	—	5,384	16	1,121	3 736	1 402	—	11,659	12 033
Total unrestricted revenues	92 595	828,806	88 225	261 610	230 183	20 364	(108 315)	1 413 468	1 298 011
Net assets released from restrictions used for operations									
Satisfaction of program restrictions	—	1 721	258	—	—	65	—	2 044	2 780
Expiration of time restrictions	—	142	—	—	—	—	—	142	133
Total net assets released from restrictions used for operations	—	1 863	258	—	—	65	—	2 186	2,913
Total unrestricted revenues and other support	92 595	830 669	88 483	261 610	230,183	20 429	(108 315)	1 415 654	1 300 924
Operating expenses									
Salaries and wages	36 527	292 720	39 939	101,869	73 283	6,037	—	550 375	519 767
Employee benefits	10 277	77,353	8,418	26,477	23 903	1,520	(1 060)	146,888	111 761
Total salaries wages and benefits	46,804	370,073	48 357	128,346	97 186	7,557	(1,060)	697,263	631 528
Physician fees	—	17 674	212	4,001	9 320	—	—	31 207	30 570
Professional services	282	11,047	606	3,275	2,059	194	—	17 463	15,973
Other services	38 136	159,206	16 790	46 162	40,835	5 962	(99,221)	207 870	171 469
Leases insurance and utilities	3 146	24 319	3,076	10,896	10,219	7 129	(8 034)	50 751	46,384
Supplies and other	241	166 248	10 981	46 158	52,437	378	—	276 443	257 758
Depreciation and amortization	19 224	32 194	4,410	12,447	15 642	181	—	84,098	79 153
Interest	587	10,555	801	6,276	7 602	—	—	25,821	26 537
Other	113	1 243		317	587	518	—	2 778	3,133
Total operating expenses	108,533	792 559	85 233	257 878	235,887	21 919	(108 315)	1 393 694	1 262 505
Operating income (loss)	(15 938)	38 110	3 250	3 732	(5 704)	(1 490)	—	21 960	38 419

(Continued)

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Operations Information

Year ended June 30 2013
(with comparative totals for the year ended June 30 2012)

(In thousands)

	Franciscan Missionaries of Our Lady Health System, Inc.	Our Lady of the Lake Regional Medical Center, Inc. and affiliated organizations	St. Elizabeth Hospital	St. Francis Medical Center Inc. and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc. and subsidiaries	Others	Eliminations	Total 2013	Total 2012
Nonoperating gains (losses)									
Investment return	$ 24	51,041	562	16,626	1 459	326	—	70 038	(5 332)
Other	—	(5 540)	(268)	(1 750)	(2 964)	206	—	(10 316)	(3 743)
Change in fair value of interest rate swap agreement	10 040	—	—	—	—	—	—	10 040	(14 118)
Total nonoperating gains (losses) net	10 064	45 501	294	14,876	(1 505)	532	—	69 762	(23 193)
Unrestricted revenues gains and other support in excess (less than) expenses and losses	(5 874)	83 611	3 544	18,608	(7,209)	(958)	—	91 722	15 226
Noncontrolling interests	—	(979)	15	—	(1,605)	—	—	(2 569)	(3,126)
Unrestricted revenues gains and other support in excess of (less than) expenses and losses attributable to FMOLHS	(5 874)	82 632	3 559	18,608	(8 814)	(958)	—	89 153	12 100
Capital transfers (to) from FMOLHS	26 974	(16,771)	(1,947)	(5 470)	(2,706)	—	(80)	—	—
Pension-related changes other than net periodic pension cost	—	47 005	—	9,083	11 650	—	—	67 738	(124 981)
Other	(2)	(635)	(5)	—	(3)	—	80	(565)	(1,848)
Increase (decrease) in unrestricted net assets	$ 21 098	112 231	1 607	22 221	127	(958)	—	156 326	(114 729)

See accompanying independent auditors' report

Schedule 3

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC AND AFFILIATED ORGANIZATIONS

Consolidating Schedule – Statement of Changes in Net Assets Information

Year ended June 30, 2013

(with comparative totals for the year ended June 30, 2012)

(In thousands)

		Franciscan Missionaries of Our Lady Health System, Inc	Our Lady of the Lake Hospital, Inc and Affiliated Organizations	St Elizabeth Hospital	St. Francis Medical Center Inc and subsidiaries	Our Lady of Lourdes Regional Medical Center, Inc and subsidiaries	Others	Eliminations	Total 2013	Total 2012
Changes in unrestricted net assets										
Unrestricted revenues gains and other support in excess of (less than) expenses and losses attributable to FMOLHS	$	(5 874)	82 632	3,559	18 608	(8 814)	(958)	—	89 153	12,100
Capital transfers (to) from FMOLHS		26 974	(16 771)	(1 947)	(5 470)	(2 706)	—	(80)	—	—
Pension-related changes other than net periodic pension cost		—	47 005	—	9 083	11 650	—	—	67 738	(124 981)
Other		(2)	(635)	(5)	—	(3)	—	80	(565)	(1 848)
Increase (decrease) in unrestricted net assets		21 098	112 231	1 607	22 221	127	(958)	—	156 326	(114 729)
Changes in temporarily restricted net assets										
Contributions		—	7,631	215	—	369	82	—	8 297	5 062
Income from long-term investments net		—	—	—	5	—	—	—	5	1
Net unrealized and realized loss on investments, net		—	—	—	—	—	—	—	—	15
Net assets released from restrictions		—	(1,863)	(258)	—	—	(65)	—	(2,186)	(2 913)
Acquired net assets		—	—	—	—	—	—	—	—	28
Other		2	97	—	—	210	—	—	309	—
Increase (decrease) in temporarily restricted net assets		2	5 865	(43)	5	579	17	—	6 425	2,193
Changes in permanently restricted net assets		—	—	—	—	(210)	—	—	(210)	(6)
Changes in noncontrolling interest										
Unrestricted revenues gains, and other support in excess of expenses and losses attributable to FMOLHS		—	979	(15)	—	1 605	—	—	2 569	3 126
Distributions		—	(421)	—	—	(1 851)	—	—	(2 272)	(5 183)
Sale of noncontrolling interests		—	—	—	—	—	—	—	—	(1,066)
Acquired noncontrolling interest		—	15 838	—	—	—	—	—	15 838	—
Other		—	—	10	—	2	—	—	12	—
Changes in noncontrolling interest		—	16 396	(5)	—	(244)	—	—	16 147	(3 123)
Increase (decrease) in net assets		21,100	134 492	1 559	22,226	252	(941)	—	178 688	(115 665)
Net assets beginning of year		20 271	755 378	62 957	131 120	128 338	2 666	(1 773)	1 098 957	1,214 622
Net assets end of year	$	41 371	889 870	64 516	153,346	128,590	1,725	(1 773)	1,277,645	1 098,957

See accompanying independent auditors report

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2013 and 2012

FMOLHS and the FMOLHS Affiliates are active, caring members of the communities they serve In carrying out its mission of meeting the health needs of the people of God, the Board of Directors has established a policy under which FMOLHS Affiliates provide care to needy members of their communities. Following that policy, healthcare services costing $13,734 and $11,216 were provided without charge during the years ended June 30, 2013 and 2012, respectively Charges foregone, based on established rates, totaled $38,576 and $30,305 for the years ended June 30, 2013 and 2012, respectively.

The FMOLHS Affiliates also participate in government programs including Medicare, Medicaid, and the TriCare program Under these programs, the FMOLHS Affiliates provide care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost In some cases, these programs pay the FMOLHS Affiliates at amounts, which are less than their cost of providing services The following table summarizes the amount of charges foregone (i e , contractual adjustments) and the estimated losses incurred by the FMOLHS Affiliates due to inadequate payments by these programs and for charity for the years ended June 30, 2013 and 2012

		2013		2012	
		Charges foregone	**Estimated unreimbursed costs**	**Charges foregone**	**Estimated unreimbursed costs**
Medicare	$	850,192	72,837	804,845	82,204
Medicaid		319,104	66,635	316,398	59,084
Other		8,322	2,332	6,713	1,544
Charity		38,576	13,734	30,305	11,216
	$	1,216,194	155,538	1,158,261	154,048

In addition to community services directly associated with providing hospital-based care, FMOLHS Affiliates serve their communities in numerous other ways Although the FMOLHS Affiliates have estimated the cost of each of these efforts to serve their communities, management and the Boards of Directors believe that such costs represent only some of the many ways FMOLHS Affiliates serve their communities The estimated costs for the years ended June 30, 2013 and 2012 are as follows

		Net community benefit expense	
		2013	**2012**
Subsidized health services	$	11,154	27,985
Community health improvement services		2,590	3,504
Health professions education		6,849	7,474
Community building activities		610	1,212
Donations or in-kind contributions		4,449	1,419
Total	$	25,652	41,594

(Continued)

Schedule 4

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Service to the Community (Unaudited)

June 30, 2013 and 2012

Subsidized health services – Includes the discount provided, at cost, to all patients that have no form of insurance coverage Programs such as St Elizabeth Community Clinic, Scott Family Clinic, and St Bernadette's Clinic Outreach programs include Franciscan House, an adult day healthcare facility Mental health services and palliative care are also provided to the community

Community health improvement services – Includes activities carried out to improve community health and costs, which are underwritten by FMOLHS Affiliates These services include Camp Bluebird, Lafayette Community Healthcare Clinic, a medication program, Congregational Health Services, Northside High School Health Center, community seminars, immunological support, parish nurse program, LakeLine Direct, St Martha Activity Center, Care Bus health services to students, and depression/anxiety screening

Health professions education – Includes assistance to future healthcare professionals, nursing students, and pharmacy students Clinical setting for undergraduate, vocational training, internships, clerkships, and residencies Collaboration with local colleges for supervision and clinical training in pharmacy, respiratory therapy, health information management, and medical technology Registered nurse recruitment activities, OLOL College, and participation in Medicare's Graduate Medical Education through affiliation with Louisiana Medical School and Medical Center of Louisiana at New Orleans will continue to support availability of future healthcare professionals

Community building activities – Includes leadership development and training for community members such as emergency preparedness programs, community health education such as classes on breast feeding, childbirth basics, sibling class, and ABC's of childcare, community support with Meals on Wheels, community-based clinical services, including health screenings, discounted services provided to Louisiana Baptist Children's Home, Veteran's Administration, Rural Hospitals, ULM Athletic Department, MDA, Wellspring, and Handicap Children, workforce development, including Area Health Education Center, and provides community clinics, St Vincent DePaul Charitable Pharmacy and Mary Bird Perkins use of land and buildings

Donations and in kind contributions – Includes donations to various area community organizations such as United Way Families Helping Families, Children's Coalition, Wellspring, YMCA, Haiti Project, Prevent Child Abuse, Komen Foundation, Alzheimer's Foundation, March of Dimes, Junior Achievement, Cystic Fibrosis, Community Fund for the Arts, Miles Perret Cancer Foundation, and American Heart Association Provides office space for The Family Tree Parenting Center, as well as employee costs associated with board and community involvement in various community organizations

KPMG

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Franciscan Missionaries of
Our Lady Health System, Inc

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc and affiliated subsidiaries (the System), which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 29, 2013 Our report

- states the System adopted the provisions of Accounting Standards Update No 2011-07 *Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* on July 1, 2012, and retroactively applied the provisions to all periods presented
- states that the supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis, is not a required part of the consolidated financial statements and has been subjected to the auditing procedures applied in the audit of the consolidated financial statements,
- states that the supplementary information included in Schedule 4 is presented for purposes of additional analysis, is not a required part of the basic consolidated financial statements, and has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control Accordingly, we do not express an opinion on the effectiveness of the System's internal control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance Accordingly, this communication is not suitable for any other purpose

KPMG LLP

Baton Rouge, Louisiana
October 29, 2013

KPMG

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC. AND AFFILIATED ORGANIZATIONS

Report on Federal Awards in Accordance with OMB Circular A-133

Year ended June 30, 2013

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC.
AND AFFILIATED ORGANIZATIONS

Table of Contents

KPMG

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Suite 1100
One Jackson Place
188 East Capitol Street
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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Franciscan Missionaries of our Lady Health System, Inc

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Franciscan Missionaries of our Lady Health System, Inc and affiliated organizations (the System), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2013

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control Accordingly, we do not express an opinion on the effectiveness of the System's internal control

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance Accordingly, this communication is not suitable for any other purpose

KPMG LLP

Jackson, Mississippi
January 15, 2014

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Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Board of Trustees
Franciscan Missionaries of Our Lady Health System, Inc

Report on Compliance for Each Major Federal Program

We have audited Franciscan Missionaries of Our Lady Health System, Inc and affiliated organizations' (the System) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended June 30, 2013 The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs

The System's consolidated financial statements include the operations of Villa St Francis, Inc , Assisi Village, Inc , Calais House, Inc , and Chateau Louise, Inc , which collectively received $12,282,213 in federal awards, which is not included in the System's accompanying schedule of expenditures of federal awards for the year ended June 30, 2013 Our audit, described below, did not include the operations of Villa St Francis, Inc , Assisi Village, Inc , Calais House, Inc , and Chateau Louise, Inc because those U S Housing and Urban Development (HUD) Projects listed above arranged to have separate audits performed in accordance with OMB Circular A-133

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program However, our audit does not provide a legal determination of the System's compliance

KPMG

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002 Our opinion on each major federal program is not modified with respect to these matters

The System's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs The System's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses However, material weaknesses may exist that have not been identified

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 Accordingly, this report is not suitable for any other purpose

KPMG

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the System as of and for the year ended June 30, 2013, and have issued our report thereon dated October 29, 2013, which contained an unmodified opinion on those consolidated financial statements Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated financial statements Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole

KPMG LLP

Jackson, Mississippi
January 15, 2014

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM
AND AFFILIATED ORGANIZATIONS

Schedule of Expenditures of Federal Awards

Year ended June 30 2013

Federal sponsor/Program title	Federal CFDA number	Pass-through award number	Pass-through entity	Direct expenditures	Pass-through expenditures	Total expenditures
Student Financial Aid Cluster*						
U S Department of Education						
Our Lady of the Lake College - Federal Work-Study (FWS)	84 033			$ 87 850	—	87 850
Our Lady of the Lake College - Federal Supplemental Education Opportunity Grant (FSEOG)	84 007			83 576	—	83 576
Our Lady of the Lake College - Federal Pell Grant Program (PELL)	84 063			2 259 030	—	2,259 030
Our Lady of the Lake College - Federal Direct Student Loans (Direct Loan)	84 268			17,015,582	—	17,015,582
Total Student Financial Aid Cluster				19 446 038	—	19 446 038
Other Financial Assistance						
U S Department of Education						
Our Lady of the Lake College - Strengthening Institutions Program (Title III)	84 031			272 704	—	272 704
U S Department of Housing and Urban Development						
Our Lady Of the Lake - Supportive Housing Program (SHP)	14 235	LA0100L6H041205	City of Baton Rouge	—	29 587	29 587
Our Lady Of the Lake - Housing Opportunities for Persons with AIDS	14 241	HOPWA-12-0003	City of Baton Rouge	—	119,555	119,555
Total U S Department of Housing and Urban Development				—	149 142	149 142
U S Department of Health and Human Services						
Our Lady of the Lake College - Nurse Anesthetist Traineeships	93 124			36 780	—	36 780
Our Lady of the Lake - Coordinated Services and Access to Research for Women, Infants Children, and Youth (Ryan White Part D)	93 153			13 948	—	13 948
Assumption Community Hospital - State Rural Hospital Flexibility Program (FLEX)	93 241			1 100	—	1,100
Assumption Community Hospital - Small Rural Hospital Improvement Grant Program (SHIP)	93 301			7 660	—	7 660
Health Care Centers in Schools -Affordable Care Act Grants for School-Based Health Center Capital Expenditures*	93 501			342 770	—	342 770
St Francis Medical Center - Affordable Care Act Grants for School-Based Health Center Capital Expenditures*	93 501			115,995	—	115 995
Total CFDA				458 765	—	458 765
Heart Hospital - Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93 527	not available	Louisiana Hospital Association	—	5 119	5 119
St Francis Medical Center - Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93 527	not available	Louisiana Hospital Association	—	32 575	32,575
St Elizabeth - Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93 527			18,372	—	18,372
Total CFDA				18 372	37 694	56 066
Health Information Technology Regional Extension Centers Program	93 718	090RC0049	Louisiana Health Care Quality Forum	—	186 530	186 530
Our Lady of the Lake - Grants for Primary Care Training and Enhancement	93 884			193 661	—	193 661
St Elizabeth - National Bioterrorism Hospital Perparedness Program	93 889	not available	Louisiana Hospital Association	—	24 092	24 092
Our Lady of the Lake - National Bioterrorism Hospital Perparedness Program	93 889	not available	Louisiana Hospital Association	—	40 943	40 943
Our Lady of Lourdes - National Bioterrorism Hospital Perparedness Program	93 889	not available	Louisiana Hospital Association	—	7 471	7 471
Assumption Community Hospital - National Bioterrorism Hospital Perparedness Program	93 889	not available	Louisiana Hospital Association	—	6 816	6 816
St Francis Medical Center - National Bioterrorism Hospital Perparedness Program	93 889	not available	Louisiana Hospital Association	—	97,542	97,542
Total CFDA				—	176 864	176 864
Our Lady of the Lake - HIV Emergency Relief (Ryan White Part A)	93 914	not available	City of Baton Rouge	—	135,936	135,936
Total U S Department of Health and Human Services				730,286	537 024	1,267 310
U S Department of Homeland Security						
Assumption Community Hospital - Hazard Mitigation Grant	97 039			48 441	—	48 441
Our Lady of the Lake - Hazard Mitigation Grant	97 039			152,244	—	152 244
St Elizabeth Hospital - Hazard Mitigation Grant	97 039			87,656	—	87 656
Total U S Department of Homeland Security				288 341	—	288 341
U S Department of Labor						
Our Lady of the Lake College - Workforce Investment Act (WIA) - Adult Program	17 258	not available	Local Workforce Investment Boards	—	29,230	29,230
Corporation for National and Community Service						
Our Lady of the Lake - Senior Companion Program (SCP)	94 016			194,572	—	194,572
Total federal expenditures				$ 20,931,941	715,396	21,647,337

* Denotes a major program

See accompanying independent auditors report and notes to schedule of expenditures of federal awards

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC.
AND AFFILIATED ORGANIZATIONS

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Franciscan Missionaries of Our Lady Health System, Inc and affiliated organizations (the System) under programs of the federal government for the year ended June 30, 2013 The System's consolidated financial statements include the operations of Villa St Francis, Inc, Assisi Village, Inc, Calais House, Inc, and Chateau Louise, Inc, which collectively received $12,282,213 in federal awards, which is not included in the Schedule The amounts reported as federal expenditures were obtained from the System's general ledger Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, results of operations, changes in net assets, and cash flows of the System

For purposes of the Schedule, federal expenditures include all grants, contracts, and similar agreements entered into directly between the System, the agencies and departments of the federal government, and all subawards to the System by nonfederal organizations pursuant to federal grants, contracts, and similar agreements The information in the Schedule is presented in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures of federal award programs are recognized on the accrual basis of accounting

(3) Federal Direct Student Loans

The System's Federal Direct Student Loans (Direct Loans) included in the Schedule represent loans received by students during fiscal year 2013, which were not made by the System

During the year ended June 30, 2013, the System expended the following amount of new loans under the Direct Loan Program

	CFDA number	Amount expended
Unsubsidized direct loans	84 268	$ 8,842,931
Subsidized direct loans	84 268	4,046,669
Parents' loans for undergraduate students	84 268	229,868
Parents' loans for graduate students	84 268	3,896,114
Total		$ 17,015,582

(Continued)

(4) Relationship to Consolidated Financial Statements

Federal expenditures are reported in the System's consolidated financial statements as follows

Total expenditures under federal grants and contracts included in other revenue in the consolidated financial statements of the System	$	2,223,139
Federal Supplemental Education Opportunity Grant – agency transactions		83,576
Federal Pell Grant Program – agency transactions		2,259,030
Federal Direct Student Loans (Direct Loan) – agency transactions		17,015,582
Nurse Anesthetists Traineeships – agency transactions		36,780
Workforce Investment Act – Adult Program – agency transactions		29,230
Federal expenditures per the Schedule	$	21,647,337

FRANCISCAN MISSIONARIES OF OUR LADY HEALTH SYSTEM, INC.
AND AFFILIATED ORGANIZATIONS

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified		
Internal control over financial reporting			
Material weakness(es) identified?	______ yes	x	no
Significant deficiency(ies) identified not considered to be material weaknesses?	______ yes	x	none reported
Noncompliance material to financial statement noted?	______ yes	x	no

Federal Awards

Internal control over major programs			
Material weakness(es) identified?	______ yes	x	no
Significant deficiency(ies) identified not considered to be material weaknesses?	______ yes	x	none reported
Type of auditors' report issued on compliance for major programs	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	x yes	______	no

Identification of major programs

CFDA numbers	Name of federal program or cluster
84 033, 84 007, 84 063, and 84 268	Student Financial Aid Cluster/U S Department of Education
93 501	Affordable Care Act Grants for New and Expanded Services under the Health Center Program/U S Department of Health and Human Services

Dollar threshold used to distinguish between Type A and Type B programs	$ 300,000	
Auditee qualified as low-risk auditee?	x yes	no

(2) Findings Related to the Consolidated Financial Statements Reported in Accordance with *Government Auditing Standards*

There were no findings relating to the consolidated financial statements reported in accordance with *Government Auditing Standards* for the year ended June 30, 2013

(3) Findings and Questioned Costs Related to Federal Awards

Finding No. 2013-001 – Cash Management: Federal Direct Student Loans Draws

Federal Program

Federal Direct Student Loans

CFDA #

84 268

Federal Agency

U S Department of Education

Federal Award Year

July 1, 2012 through June 30, 2013

Criteria

The advance payment method permits, but does not require, institutions to draw down Title IV funds prior to disbursing funds to eligible students The institution's request must not exceed the amount immediately needed to disburse funds to students A disbursement of funds occurs on the date an institution credits a student's account or pays a student directly with either Student Financial Aid funds or its own funds The institution must make the disbursements as soon as administratively feasible, but no later than 3 business days following the receipt of funds Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the U S Department of Education (34 CFR section 668 166(a)(1)) Excess cash includes any funds received from the U S Department of Education that are deposited or transferred to the institution's Federal account as a result of an award adjustment, cancellation, or recovery However, an excess cash balance tolerance is allowed if that balance (1) is less than one percent of its prior-year drawdowns, and (2) is eliminated within the next 7 calendar days (34 CFR sections 668 166(a) and (b)) Interest earnings greater than $250 must be returned to the Department of Education (34 CFR section 668 163(c)(4))

Condition

During June 2013 the System drew direct loan funds from the U S Department of Education totaling $590,523, which were not properly disbursed nor refunded within the 3 business day requirement for excess cash The funds drawn down on June 26, 2013 were refunded on July 17, 2013 There was no interest earned on these funds

Questioned Costs

None

Context

Due to an oversight, Direct Loan funding was drawn in excess of disbursements to students The System's reconciliation process identified the error and the funds were refunded to the U S Department of Education Due to the lapse of time between the draw and the reconciliation the funding was not returned within the 3 business days following the receipt of funds as required

Effect

The System did not comply with the requirements over drawing down loan funds

Recommendation

We recommend that management strengthen the System's policies and procedures to ensure that draws reflect immediate student disbursement requirements

Management Response

Management agrees with the finding and has since remediated the deficiency

Finding No. 2013-002 – Federal Direct Student Loans – Disbursement Notification Letters

Federal Program

Federal Direct Student Loans

CFDA #

84 268

Federal Agency

U S Department of Education

Federal Award Year

July 1, 2012 through June 30, 2013

Criteria

Per 34 CFR Section 668 165(a), if an institution credits a student's account at the institution with a direct loan, the institution must notify the student, or parent in writing of (1) the date and amount of the disbursement, (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan

Institutions that implement an affirmative confirmation process (as described in 34 CFR section 668 165 (a)(6)(i)) must make this notification to the student or parent no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution with Direct Loan, FPL, or TEACH Grants

Condition

During our test work related to notifications for direct loan participants, we noted 32 notification letters were not promptly sent within the 30-day timeframe for 17 students Of the 32 notification letters, 30 letters were sent out 32 days after crediting the student's account and 2 were sent 46 days after crediting to the student's account

Questioned Costs

No questioned costs are associated with this finding

Context

A process lag caused the listing of students requiring notifications to be delayed As a result, there were 32 loan disbursement notification letters that were not sent in a timely manner to 17 students

Effect

The System did not comply with the time requirements over notifications for certain students receiving direct loans

Recommendation

We recommend that management strengthen the System's policies and procedures to ensure that future notifications are sent timely

Management Response

Management agrees with the finding and has since updated procedures and remediated the deficiency

FMOLHS
Summary Schedule of Prior Audit Findings
Year ended June 30, 2013

Finding No. 2012-01 – Federal Direct Student Loans – Disbursements

Federal Program
Federal Direct Student Loans

CFDA #
84 268

Federal Agency
U S Department of Education

Federal Award Year
July 1, 2011 through June 30, 2012

Criteria
Per 34 CFR Section 668 165(a), if an institution credits a student's account at the institution with a direct loan, the institution must notify the student, or parent in writing of (1) the date and amount of the disbursement, (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan

Condition
During our test work related to notifications for direct loan participants, we noted notification letters were not sent for 2 out of 25 students receiving direct loans for the Fall 2011 semester and for 21 out of 25 students receiving direct loans for the Spring 2012 semester

Questioned Costs
No questioned costs are associated with this finding

Context
A change in information technology caused the listing of students requiring notifications to be incomplete The report was only identifying the student's first loan disbursement record As a result, there were 2,216 loan disbursement records that were excluded

Effect
The Medical Center did not comply with the requirements over notifications for students receiving direct loans

Recommendation
We recommend that management strengthen the Medical Center's policies and procedures to ensure that future notifications are sent timely

Finding Status
Management has since remediated the deficiency by modifying the Crystal Report used to generate the loan disbursement notifications The report now captures all loan disbursements

Finding No. 2012-02 – Direct Loan Program – Special Tests: Enrollment Reporting

Federal Program
Federal Pell Grant Program

CFDA #
84 063

Federal Agency
U S Department of Education

Federal Award Year
July 1, 2011 through June 30, 2012

Criteria
Per 34 CFR Section 685 309, a school must notify the Department of Education within 30 days of discovering that a direct loan has been made to or on behalf of a student who has had certain status changes

Condition
During our test work related to enrollment reporting, we noted 2 out of our sample of 25 students with status changes that were not correctly reported to the Department of Education

Questioned Costs
No questioned costs are associated with this finding

Context
Management was submitting status change reports timely However, due to an error caused by the system pulling census data as of an incorrect date, the status changes being reported were incorrect in instances where there was a change in status after this date

Effect
The Medical Center did not comply with the requirements over enrollment reporting

Recommendation
We recommend that management strengthen the Medical Center's policies and procedures to ensure that future status changes are reported timely

Finding Status
Management has since remediated the deficiency by changing Return of Title IV Funds (R2T4) procedures All returns of Title Funds will be handled by one person

KPMG

KPMG LLP
Suite 1700
450 Laurel Street, Suite 1700
Baton Rouge, LA 70801

October 29, 2013

The Audit Committee
Franciscan Missionaries of Our Lady Health System, Inc

Ladies and Gentlemen

In planning and performing our audit of the consolidated financial statements of Franciscan Missionaries of Our Lady Health System, Inc (the System), as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the System's internal control Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows

Access to Charge Master File

During the course of our audit, we noted that four individuals at St Francis Medical Center (St Francis) had edit access to the St Francis charge master file, whose jobs do not require such edit access We recommend the System establish policies to review the list of users with access to the charge master list to validate that access rights are commensurate with assigned job responsibilities

Management's response

We concur with the finding A written policy will be established documenting that all employee access rights to the charge master list will be restricted based upon job functions and all employee access rights to the charge master list will be reviewed at least semi-annually

Management Review of Subsidiary Financial Statements

Management does not perform a formal review of the financial results of consolidated entities for which the System does not perform management or accounting functions During the year, Our Lady of the Lake Regional Medical Center (OLOL), subsidiary of the System, acquired a 51% interest in a joint venture, which acquired a 55% interest in Pontchartrain Surgery Center Based on management's assessment, the surgery center would be consolidated into the System's consolidated financial statements However, the System's management did not perform sufficient review of the financials once received and prior to consolidation

Management's response

A written policy will be established documenting that the financial statements of all the System subsidiaries will be reviewed prior to the completion of the System's consolidated financial statements

Pension Census Data

During our verification of census data provided to Aon Hewitt, the System's consulting actuary for the defined benefit pension plans, we noted that the census data was not appropriately reconciled to the System's payroll system Once the reconciliation process of the System's Human Resource underlying reports to the Aon Hewitt actuary census data was complete, there was a lack of diligent follow up by the System Human Resource department to ensure Aon Hewitt processed the corrections before issuing an actuary report We recommend that management establish processes and procedures to ensure all data provided to the actuaries has been properly reconciled to underlying data and any reconciling items identified during the reconciliation process are followed up by Human Resources on a timely basis

Management's Response

A policy that requires all reconciling items identified during the reconciliation process of the System's Human Resource underlying reports to Aon Hewitt actuary census data will be followed up by the Human Resource department and corrected within the census data prior to the issuance of the Aon Hewitt actuary report will be established

Segregation of duties

In the course of the audit, we noted several situations involving conflicting responsibilities·

- Individuals had access to the Colleague information system that did not apply to their job function

- Three employees had access to post journal entries in Lawson and had access to student accounts

We recommend the System establish policies to review the list of users with access to relevant applications to validate that access rights are commensurate with assigned job responsibilities

Management's response

We concur with the finding A written policy will be established documenting that all employee access rights will be restricted based upon job functions, any employee with access to post journal entries will be restricted to read only access within Colleague, and all employee access rights within the System's IT systems will be reviewed at least quarterly

Management review of adjunct payroll

Management does not have policies in place to review that adjunct payroll is supported by staff contracts Members of the staff may be added to the adjunct payroll spreadsheet without a signed contract

It is recommended that policies be established to ensure proper documentation is in the employee file prior to processing payroll changes

Management's response

We concur with the finding Management has updated the System's policies to include review and approval by the finance department for any adjunct pay The Office of Academic Affairs will provide a copy of the signed contract to the finance department for submission to the Payroll department prior to processing Payroll will not process without approval from the finance department

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Our audit procedures are designed primarily to enable us to form an opinion on the consolidated financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the System's organization gained during our work to make comments and suggestions that we hope will be useful to you

We would be pleased to discuss these comments and recommendations with you at any time.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties The System's written responses to our comments and recommendations have not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on them

Very truly yours,

KPMG LLP